Fee Compression, Investor Attention, and Competitive Dynamics in China's Mutual Fund Industry

Abstract

This paper investigates how China's mutual fund fee reduction reform affects the behavior of market participants, including fund flows, and managerial responses. Using fund-quarter-level data around the 2023 fee reform, I find that the reduction and compression of fund fees significantly muted investors' sensitivity to expense ratios and shifted their attention toward fundamental performance indicators. Cross-sectional analysis reveals heterogeneous effects: funds with higher institutional ownership adapted more quickly, while mid-tier performance funds and funds issued by smaller firms benefited disproportionately from the reform, suggesting a combination of demand- and supply-side frictions in shaping flows. In response to the reform, highly impacted funds and firms largely pursued scale-oriented strategies through product proliferation rather than improving fund performance, indicating that quality-enhancement channels were limited. Overall, the findings demonstrate that fee reforms can reallocate investor attention, enhance market efficiency, and alter competitive dynamics in the mutual fund industry.

Keywords: mutual funds, fee compression, investor attention, fund flows, regulatory reform

JEL Classifications: G23, G11, G41, G18

1 Introduction

The ongoing fee reform in China's mutual fund (MF) industry marks a major structural adjustment to one of the fastest-growing segments of the country's capital market. Since their establishment in 1993, Chinese public mutual funds have expanded rapidly, with total net assets surpassing RMB 32 trillion by the end of 2024. As these funds increasingly serve as the main channel through which households and pension investors enter the equity market, their cost efficiency and governance quality have drawn intense public scrutiny.

A key impetus for the reform stems from long-standing criticism that Chinese mutual funds have charged persistently high fees while delivering underwhelming performance. According to the Reports of Mutual Funds in China 2025 (Tsinghua PBCSF), in 9 of the past 22 years equity funds underperformed their benchmarks, and during major bull markets (e.g., 2007, 2009, and 2017), fewer than 6% of active funds beat the index. Four-factor and Treynor–Mazuy estimates further indicate that only 3.6% of managers demonstrate genuine stock-picking skill, and just 1.5% show timing ability. Despite these results, fee levels remain high: in 2022, even as the mutual fund sector lost RMB 1.47 trillion, the top ten fund houses collected RMB 58.8 billion in management fees, with E Fund alone earning over RMB 10 billion. These disparities have fueled media criticism and investor dissatisfaction.

China's MF fees also compare unfavorably with international and private-fund benchmarks. Unlike the performance-linked structures common in hedge funds or U.S. variable-fee products, most Chinese public funds charge fixed holding-based management and custodial fees, providing little incentive alignment. As such, the 2023–2025 reform aims to correct misaligned incentives, reduce investor costs, and promote competition based on investment quality rather than pricing power. The reform has proceeded in three stages: (1) Phase I (July 2023): the CSRC's Work Plan on Mutual Fund Fee Reform reduced management and custodial fee rates for active equity and mixed funds, lowering investors' annual costs by approximately RMB 14 billion. (2) Phase II (April 2024): the Provisions on Securities Transaction Fees for Public Funds capped brokerage commissions and fund-manager sharing ratios, with estimated investor savings of RMB 6.8 billion annually. (3) Phase III (May–September 2025): the Sales Fee Management Provisions lowered subscription and redemption charges, cutting entry costs by roughly RMB 30 billion per year.

Among these, the Phase I reform provides the most direct and measurable shock to investor holding expenses. It affects the key cost component relevant to buy/sell decisions—annual management and custodial fees—while later reforms target inter-institutional transaction costs or post-2025 sales commissions. Within the active equity and mixed-asset fund universe (6,383 funds), roughly half were required to reduce both fees, with an average total holding-expense decline from 1.49% to 1.27%. The distribution of fees became more concentrated, as variance fell and kurtosis rose, suggesting a compression of pricing dispersion.

Although the immediate effect of fee cuts is to lower investor costs, their broader welfare impact depends on behavioral and institutional adjustments. Fee levels in the MF market have long conveyed information about perceived manager quality and effort. When such cost signals are compressed, investors may shift their attention from fees to fundamental performance metrics, while fund companies—facing reduced margins—may alter product strategies or risk-taking behavior. Understanding these behavioral and strategic responses is therefore central to evaluating the real impact of China's mutual fund fee reform.

Investors in open-end mutual funds typically base their allocation decisions on net returns after costs, which are determined by both the fund's holding-period performance and the costs of holding the fund, most notably the expense ratio (i.e., the sum of management and custodian fees). Prior research demonstrates that fees play a dual role: they represent a direct cost burden, with lower-cost funds generally attracting higher flows (Sirri and Tufano, 1998; Huang et al., 2007), and they also serve as a signal of managerial quality (Gil-Bazo and Ruiz-Verdu, 2008; Gil-Bazo and Ruiz-Verdu, 2009). Before the fee-reduction reform, substantial variation in fees across funds allowed investors to respond via two channels: (i) a signaling channel, whereby higher fees implied greater managerial commitment, and (ii) a cost channel, whereby lower fees enhanced net returns. Following the 2023 regulatory fee cut, which compressed fee dispersion and imposed upper limits, the informational content of fees is weakened. As fees become less differentiating, I expect investors to shift away from "fee avoidance" heuristics and place greater emphasis on fundamental attributes, such as past performance (Chevalier and Ellison, 1997), manager tenure, fund size (Edelen et al., 2007), and risk characteristics. Accordingly: Hypothesis 1 (Investor attention shift): After the fee-reduction reform, the sensitivity of fund flows to expense ratios decreases, and investors allocate more weight to funds' fundamental quality characteristics.

The literature on investor learning and mutual fund flows highlights heterogeneity in how quickly and accurately different investor groups respond to structural changes. For example, institutional and retail investors differ in their capacity to interpret fund performance signals (Christoffersen, 2001), and more sophisticated investors adjust their allocation behavior more effectively in response to past performance information (Huang et al., 2022). In the context of a fee-reduction reform, institutional investors—endowed with greater analytical resources, professional expertise, and access to information—are likely to adapt more rapidly to the reduced signaling role of fees, reallocating their capital toward fundamental quality indicators. Thus: Hypothesis 2 (Investor-side heterogeneity): Institutional investors will respond more rapidly and strongly to the fee-reduction reform, reducing reliance on fee signals sooner and shifting toward fundamental quality criteria faster than retail investors.

On the supply side, funds differ in their ability to attract flows, expand distribution, and establish competitive positioning. Existing studies suggest that smaller firms or mid-tier performance funds, due to lower visibility compared with star funds, often rely on alternative

mechanisms—such as marketing intensity (Roussanov et al., 2021) or lower participation costs (Huang et al., 2007)—to attract investors. Fee-based competition is typically a crucial tool for these "weaker" supply-side players. When fees are compressed by the reform, such prior competitive advantages are diminished, and flow dynamics may shift substantially for these funds. Consequently: Hypothesis 3 (Supply-side heterogeneity): Funds historically disadvantaged in attracting flows—specifically mid-tier performance funds or those issued by smaller firms—will experience the largest decline in expense-sensitivity of flows post-reform, as their previous reliance on fee competition is neutralized and investor attention redistributes.

Fund managers and issuing firms face margin pressure when fee dispersion is compressed. To maintain revenues, they may pursue one or both of two strategic responses: expanding scale (e.g., launching new funds) or enhancing quality (e.g., improving risk-adjusted performance), potentially accompanied by cost-control measures such as staff reductions (Khorana and Servaes, 2004). Evidence supporting the scale channel indicates that newly launched funds often compete for the same investor base as existing funds with similar holdings (Wahal and Wang, 2011). In contrast, the literature on the performance channel shows a positive, sometimes nonlinear, relationship between fund flows and past performance, providing incentives for managers to improve returns or adopt more aggressive investment strategies (Chevalier and Ellison, 1997; Christoffersen, 2001). However, prior research also suggests that under competitive pressure, firms may prioritize quantity expansion over genuine performance improvements. Accordingly: Hypothesis 4 (Supply-side strategy): In response to the fee-reduction reform, issuing firms may adopt both scale and quality strategies. Specifically, (i) firms are likely to increase the number of new funds launches, reflecting a scale-driven response, and (ii) improvements in fund-level performance may occur but are expected to be less systematic than scale expansion and may depend on the interaction between fee reductions and investor attention shifts. Smaller firms, in particular, are likely to rely more heavily on scale-based strategies, whereas quality improvements may vary across firms.

This study examines the impact of China's mutual fund fee-reduction reform on the behavioral adjustments of market participants, focusing on how the reform reshaped investor attention, fund flows, and supply-side strategic responses. Using a panel of active equity and mixed mutual funds denominated in CNY over the period 2020Q1–2025Q2, I exploit the 2023Q3 fee-reduction reform as a quasi-natural experiment to identify changes in behavior before and after the policy shock.

First, I investigate how investor attention and investment paradigms evolved following the reform. Specifically, I estimate fund-level regressions of net flows on the interaction between post-reform periods and fund fees as well as fundamental quality indicators (such as past alpha, size, and risk characteristics). The results show a significant decline in the magnitude of flow sensitivity to fees, accompanied by an increased sensitivity to funds' fundamental attributes. These findings suggest that investors' decision processes shifted from fee avoidance toward a stronger emphasis on underlying quality once fee differentials narrowed.

Second, I conduct heterogeneity analyses to uncover how different market participants—on both the demand and supply sides—were differentially affected. On the demand side, I classify investors by type and examine variations in the flow–fee sensitivity response across groups. Institutional investors display a more pronounced and timely adaptation: their reliance on fee signals declines more substantially, and their allocations become more responsive to fundamental factors such as risk-adjusted returns and fund size. On the supply side, I explore how funds and fund management companies differ in their exposure to the reform. By grouping funds based on prior performance (top, middle, and bottom terciles) and companies by family-level total net assets, I find that mid-tier and small-firm funds—traditionally at a competitive disadvantage—experience the greatest reduction in fee-sensitive flows. The reform effectively alleviates their dependence on fee competition, providing an opportunity for these funds to reposition themselves in response to investors' increasing focus on fundamentals.

Finally, I examine how supply-side participants strategically responded to the income pressure created by the reform. Based on the heterogeneity analysis, I identify funds and companies most exposed to fee compression ("high-impact" groups) and compare their post-reform adjustments with less affected counterparts. Under a quality-oriented strategy, I test whether high-impact funds improved their performance (measured by active returns) to attract new inflows. The evidence shows no significant performance enhancement, indicating that funds did not engage in aggressive "performance races" to offset lost fee revenue. This also suggests a degree of prudence, as fund managers refrained from excessive risk-taking. Under a scale-oriented strategy, I analyze fund family behavior and find that high-impact fund companies increased the number of new fund launches after the reform. Given the muted fee sensitivity of flows, new product issuance became an effective means to capture investor attention and expand total net assets at the family level, thereby stabilizing overall revenue despite lower fee rates.

This paper contributes to several related strands of the mutual-fund and household-finance literatures by documenting how a regulatory compression of fees reshapes investor attention, redistributes competitive advantages across funds and families, and elicits supply-side strategic responses.

First, the paper speaks to the large literature on mutual-fund flows, fees, and performance. Classic studies establish that investors' cash flows are systematically related to past performance and fund characteristics: Sirri and Tufano (1998) document that flows respond to past performance and marketing; Gruber (1996) and Berk and Green (2004) provide canonical frameworks for understanding the flow–performance relation and the role of managerial ability and scale in equilibrium; Chevalier and Ellison (1997) emphasize incentive-driven risk-taking and the agency conflicts faced by fund families. These works collectively show that observable fund attributes—including fees—affect investor allocations either directly (via net-return effects) or indirectly (as signals of manager quality). Building on this foundation, this paper isolates a regulatory shock that

materially compresses cross-fund fee dispersion and examines the behavioral and strategic consequences. Unlike prior work that documents correlations between fees and flows, the current setting permits causal inference on how reducing the informational and economic salience of fees changes what investors attend to when allocating capital.

Second, the paper contributes to the attention, learning, and heterogeneity literature on mutual funds. Recent empirical work (Barber et al., 2016) decomposes what factors investors attend to when allocating capital and shows that investors do not always rationally parse performance into its component sources; other work on investor learning (Huang et al., 2022) documents that more sophisticated investors learn from performance history and thus respond differently over time. Our findings extend these strands by showing that an exogenous narrowing of fee variation mutes the traditional "fee-avoidance" heuristic and induces a measurable shift in investor attention toward fundamental quality attributes (e.g., alpha, size, manager characteristics). Importantly, I show that this attention reallocation is heterogeneous: institutional investors — who possess greater analytic capacity and learning incentives — adjust more quickly and more completely, consistent with the learning/sophistication literature.

Third, the paper links to the literature on fund family strategy and product proliferation. Research by Khorana and Servaes (1999), Massa (2003), Gaspar et al. (2006), and others has established that fund families pursue non-price strategies (product differentiation, cross-fund spillovers, selective resource allocation) to attract and retain investors; new product launches and intra-family subsidization are common strategic responses to market structure and demand heterogeneity. In contrast to the notion that managers will universally "compete on quality" when margins compress, the results show that, in practice, many issuing firms favor a scale / product-proliferation response rather than (or prior to) genuine performance enhancement. Specifically, funds/families most affected by the fee reform increase new fund launches (and thereby family-level AUM), while I do not observe systematic improvements in fund-level active returns. This evidence nuances the product-proliferation literature by linking product entry incentives to a supply-side response to regulatory compression of fees — a policy-relevant mechanism that has not been directly tested in prior work.

Finally, the paper contributes to policy debates about fee regulation and retail investor protection. The results indicate that fee compression can reduce the mechanical reliance on fees as a screening device — which on the one hand attenuates a straightforward cost-avoidance channel, and on the other hand encourages investors to attend more to fundamentals. The net welfare implications are nuanced: while the attenuation of fee-based sorting appears to help previously disadvantaged funds (mid-tier and small-family funds) by improving their relative attention and inflows, firms may respond by expanding product offerings rather than by improving performance, with potential implications for market complexity and investor search costs. By explicitly documenting these behavioral and strategic channels, this study provides empirical evidence to

inform regulators considering fee caps or other forms of fee compression.

The rest of the paper is organized as follows. Section 2 introduces the data and variable construction. Section 3 reports the main results on how the reform altered investors' sensitivity to fees and fundamentals. Section 4 analyzes cross-sectional heterogeneity across market participants. Section 5 investigates the strategic reactions of fund companies and managers to fee compression. Section 6 concludes with implications for investor welfare and market efficiency.

2 Data and Variables

2.1 Sample

The sample is drawn from the CSMAR database for the period 2020Q1 to 2025Q2. The final dataset is a fund-quarter level panel containing 5,595 unique funds. The analysis focuses on actively managed equity and mixed open-end mutual funds denominated in RMB. Funds with floating management fees, non-RMB share classes, or QDII (Qualified Domestic Institutional Investor) structures are excluded to ensure comparability in fee schedules and domestic investor bases.

Among all funds that survived through the reform period (5,029 funds), approximately 50% were directly affected by the first-stage fee reform. In the full panel of quarterly observations, about 65% correspond to funds whose holding expenses were reduced, providing substantial cross-sectional and temporal variation to identify the impact of the policy shock.

[Table 2.1]

Table 2.1 reports the summary statistics. In Panel A, I present measures of fund flows. The average quarterly net flow is –3%, reflecting that aggregate redemptions slightly outweigh subscriptions. On average, quarterly inflows account for 13% of assets under management (AUM), while outflows represent 16%. Despite negative average net flows, the overall mutual fund industry's total net assets continue to grow, suggesting that outflows are disproportionately driven by smaller funds. Even after winsorizing fund flows at the 5th and 99th percentiles, the kurtosis of net flow (TNA) remains high at 5.12, and that of inflow (share) is 7.94, highlighting the fat-tailed nature typical of fund flow distributions. Panel B of Table [SUMSTAT] summarizes fund characteristics. The average total expense ratio is approximately 1.4% per year, while the average past quarterly return is around 1%, implying that management fees consume a meaningful portion of investors' net returns. For presentation clarity, expense ratios in the table are shown as annualized percentages, whereas all regressions use the quarterly decimal form (ranging from 0 to 1). Continuous variables are winsorized at the 1st and 99th percentiles, while fund flow variables are winsorized at the 5th and 95th percentiles to mitigate the influence of outliers. The total net assets (TNA) variable is expressed in natural logarithms. For detailed definitions and construction methods of all variables, please refer to Appendix Table A1.

2.2 Fund Flow Variables

This study employs several fund flow measures as dependent variables, including *Netflow (TNA),*

Netflow (NAV), Netflow (Shares), Inflow (Shares), and *Outflow (Shares)*. The primary measure is *Netflow (TNA)*, following the standard formulation in Sirri and Tufano (1998). The alternative flow variables yield highly consistent results, confirming the robustness of the flow data and supporting the use of share-based measures to decompose inflows and outflows.

Netflow (TNA) is constructed as the quarterly percentage growth in a fund's total net assets (TNA) beyond what would be expected from portfolio returns alone, assuming all dividends are reinvested. Formally,

$$Netflow_{i,t} = \frac{TNA_{i,t} - TNA_{i,t-1} * (1 + R_{i,t})}{TNA_{i,t-1}}$$

$$R_{i,t} = \frac{Accumulated\ NAV_{i,t} - Accumulated\ NAV_{i,t-1}}{Accumulated\ NAV_{i,t-1}}$$

where $TNA_{i,t}$ denotes the total net assets of fund *i* at the end of quarter *t,* and $R_{i,t}$ represents the cumulative net asset value (NAV) return during the same period. Economically, this measure captures the proportion of asset growth attributable to new investor money rather than capital gains.

The construction of *Netflow (NAV), Netflow (Shares), Inflow (Shares)*, and *Outflow (Shares)* follows directly from this baseline formulation. Detailed variable definitions and computational steps are summarized in Appendix Table A1. All flow and return data are obtained from the CSMAR database.

2.3 Other Key Variables

This study additionally incorporates a time indicator (Post) and a set of fund-, manager-, and firm-level characteristics that may influence fund net flows. Post is a dummy variable equal to 1 for quarters after the first phase of the fee reform (2023Q3 onward) and 0 otherwise. Other determinants of net flows include fund-quarter–level characteristics, manager attributes (each fund is assumed to have one primary manager during a given period, defined from the appointment announcement until the next one), and firm-quarter–level features of the fund company. All data are obtained from CSMAR.

3 How the Fee Reform Reshaped Investor Behavior?

This section investigates how the mutual fund fee reduction reform influenced the relationship between fund expenses and investor flows. Section 3.1 examines whether the reform weakened investors' sensitivity to fees. Section 3.2 explores whether investors shifted their attention toward other fundamental fund attributes once fee dispersion narrowed. Section 3.3 further decomposes net flows into inflows and outflows to identify the flow channels through which the reform affected investor behavior.

3.1 Baseline Effect: Fee Reduction Reform and Attenuated Flow-Expense Sensitivity

This subsection investigates whether the fee reform reduced investors' sensitivity to fund expenses. The empirical specification follows Model (1).

$$Flow_{i,t} = Post_t * Expense_{i,t} + Expense_{i,t} + Controls_{i/j,t} + \gamma_i + \delta_t + \eta_q + \varepsilon_{i,t} \quad (1)$$

The dependent variable, *Netflow*, is defined as the quarterly net growth in fund assets beyond reinvested dividends (Sirri and Tufano, 1998). It measures the percentage increase in a fund's assets beyond what would occur if all dividends were reinvested but no new capital were added. Three methods are used to compute *Netflow*: (1) using total net assets (TNA) and accumulated NAV returns, (2) deriving TNA from NAV and fund shares, and (3) combining fund shares and accumulated NAV returns. Results across these definitions are highly consistent, confirming the robustness of the measure. The key explanatory variable is the interaction term between *Post* and *Expense Ratio*. *Post* is a time dummy equal to one for quarters after the first phase of the fee reduction reform (2023Q3 onward) and zero otherwise. *Expense Ratio* denotes the quarterly holding expenses of a fund, including both management and custodian fees, charged as a percentage of the fund's net asset value. All regressions control for fund–quarter-level characteristics, manager characteristics, and firm–quarter-level characteristics. Fund, year–quarter, and quarter fixed effects are included, and standard errors are clustered at the fund level. Detailed variable definitions are provided in Table A1.

Theoretically, since the reform compressed the fee dispersion across funds, the sensitivity of investor flows to fund expenses should decrease. Therefore, the coefficient on *Expense Ratio* is expected to be negative, reflecting investors' aversion to higher costs, while the interaction term *Post* × *Expense Ratio* should be positive, capturing the reduction in expense sensitivity after the reform.

[Table 3.1]

Table 3.1 reports the results. In column (1), the coefficient on *Expense Ratio* is –30.518 and significant at the 1% level, while the coefficient on *Post* × *Expense Ratio* is 15.426, also significant at the 1% level. Economically, this indicates that the impact of expenses on net flows was reduced by roughly half following the reform. The findings are consistent with the hypothesis that fee compression diminishes investors' reliance on expense levels in their allocation and redemption decisions.

3.2 Shift in Investor Focus: Fee Reduction Reform and Heightened Attention on Fundamental Qualities

Building on the baseline results that fee sensitivity declined, this subsection examines whether investors redirected their attention toward other fundamental fund attributes after the reform. Once fee dispersion narrowed, investors may have paid more attention to performance-related indicators such as alpha, fund size, or manager characteristics when making investment or redemption decisions.

$$Flow_{i,t} = Post_t * Expense_{i,t} + Post_t * Fundamental\ Qualities_{i/j,t} + Expense_{i,t} + Fundamental\ Qualities_{i/j,t} + Controls_{i/j,t} + \gamma_i + \delta_t + \eta_q + \varepsilon_{i,t} \quad (2)$$

Model (2) extends the baseline specification by introducing interactions between *Post* and various measures of *Fundamental Qualities*, in addition to the expense ratio. The dependent variable

remains *Netflow*, defined as in Section 3.1. The key variables of interest are *Post* × *Expense Ratio* and *Post* × *Fundamental Qualities*. *Fundamental Qualities* represent fund-level, manager-level, and firm-level attributes that may influence investors' perceptions of value beyond expenses. Examples include *Alpha*, defined as Jensen's alpha computed over a rolling two-quarter window using weekly returns, which captures the fund's stock selection ability, and *Total TNA*, defined as the natural logarithm of one plus the fund's total net assets, which reflects potential scale economies and efficiency in fund management. Column (1) of Model (2) includes only fund-level controls, while columns (2) and (3) further incorporate manager-level and firm-level controls. Fund, year–quarter, and quarter fixed effects are included, and standard errors are clustered at the fund level. Detailed variable definitions are provided in Table A1.

If the fee reform freed investors' attention from cost-based considerations, they would likely refocus on performance-related and structural factors. Therefore, the coefficient on *Post* × *Fundamental Qualities* is expected to be positive and significant for characteristics that investors view favorably, or to display opposite signs when investor perceptions shift.

[Table 3.2]

Table 3.2 presents the results. The findings confirm an attention shift from fees to fundamentals. The coefficient on *Expense Ratio* is –28.895 (1% level), while *Post* × *Expense Ratio* is 15.864 (1% level), again implying a halving of fee sensitivity after the reform, consistent with Section 3.1. For *Alpha*, both the main effect and the interaction term are positive and significant (0.013 each at the 1% level), suggesting that the impact of performance doubled following the reform, and investors increasingly rewarded stock-picking ability. For *Fund TNA*, the main coefficient is insignificant (–0.077), but the interaction term (–0.004, 1% level) becomes significant, indicating greater investor awareness of scale effects. *Manager Tenure* shows a similar pattern, with an insignificant main coefficient (–0.001) and a significant interaction term (–0.002, 5% level), implying stronger attention to managerial experience. For *Standard Deviation of Return*, the interaction coefficient (0.004, 5% level) is positive and significant, suggesting that lower expenses enhanced investors' tolerance for risk. Finally, *Star Ratings* exhibit an opposite pattern: the main effect (0.032) is positive and significant, while the interaction term (–0.017) is negative and significant at the 1% level. This suggests that investors became less reliant on reputation-based signals and more focused on fundamental attributes after the reform.

Overall, these results provide consistent evidence that fee reduction reforms not only diminished fee sensitivity but also redirected investor attention toward performance, skill, and efficiency, fostering a more rational allocation behavior.

3.3 Fee Reform's Outflow Channel: Reduced Redemption Sensitivity Drives Net Flow Improvement

This subsection decomposes *Netflow* into *Inflow* and *Outflow* components to explore through which channel the decline in expense sensitivity occurred. Columns (1)–(3) correspond to Model (1),

focusing on post-reform changes in the *flow–expense* relationship, while columns (4)–(6) correspond to Model (2), which examines interactions between *Post*, *Expense Ratio*, and *Fundamental Qualities*.

The dependent variables are defined as follows. *Netflow (Shares)* equals (quarter-end shares – quarter-start shares) divided by quarter-start shares. *Inflow (Shares)* represents the number of shares purchased during the quarter divided by quarter-start shares, while *Outflow (Shares)* represents the number of shares redeemed during the quarter divided by quarter-start shares. By definition, *Netflow (Shares) = Inflow (Shares) – Outflow (Shares)*. The key independent variables are *Post* × *Expense Ratio* and *Post* × *Fundamental Qualities*, as defined in Section 3.2. All regressions include the same set of fund-, manager-, and firm-level controls, with fund, year–quarter, and quarter fixed effects and standard errors clustered at the fund level. Detailed variable definitions are provided in Table A1.

[Table 3.3]

Table 3.3 shows that the muted relationship between flows and expenses primarily operates through reduced redemption sensitivity. In column (3), the coefficient on *Post* × *Expense Ratio* for *Outflow* is –17.739, significant at the 1% level, and in column (6) the corresponding coefficient is –14.149, also significant at the 1% level. These results indicate that after the reform, investors became less likely to redeem funds in response to higher expenses.

This finding aligns with economic intuition. Because the expense ratio reflects the ongoing cost of holding a fund, a general reduction and compression in fees lowers the perceived cost of maintaining positions, thereby reducing redemption pressure. In contrast, *Inflow* regressions show no significant interaction effect, suggesting that lower fees did not directly attract new purchases but instead discouraged redemptions. Consequently, the reform's positive impact on *Netflow* is mainly driven by a defensive outflow channel, whereby reduced holding costs weakened investors' motivation to withdraw capital.

4 Cross-Sectional Heterogeneity: Demand- and Supply-Side Dynamics

This section investigates the heterogeneous effects of the fee reduction reform on the flow–attention relationship across the mutual fund market's demand and supply sides. Section 4.1 focuses on investor heterogeneity, identifying which types of investors the reform most directly influenced. Sections 4.2 and 4.3 then examine how the reform reshaped the competitive landscape of the mutual fund industry by analyzing fund-level and firm-level heterogeneity, respectively. Overall, the results suggest that the fee reform generated an asymmetric impact: it favored stronger players on the demand side (rewarding institutional investors) and supported weaker participants on the supply side (benefiting mid-tier and small-firm funds).

4.1 Institutional Investors as Quicker Learners and Smoother Adapters

This subsection analyzes the demand side of the mutual fund market, exploring how different

investor types adjusted their flow–expense and flow–fundamental relationships following the fee reform. The findings indicate that the reform led to a "stronger rewarded" effect on the demand side—institutional investors adapted more efficiently to the new fee environment and shifted their attention away from expenses.

The empirical framework follows Equation (2), with quarterly *net flow* of fund *i* as the dependent variable. *Net flow* is defined as the net growth in fund assets beyond reinvested dividends (Sirri and Tufano, 1998), representing the percentage increase in assets that would not have occurred absent new capital inflows. The key explanatory variables include the post-reform indicator (*Post*), fund characteristics (primarily the expense ratio and measures of fundamental quality), and their interaction terms (*Post* × *Fund Characteristics*). The sample is split into two groups based on each fund's institutional ownership ratio during the pre-reform year. Funds in the top half of the distribution (p50–p100) are classified as *high-institutional funds*, while those in the bottom half (p0–p50) are *low-institutional funds*. This grouping captures differences in investor composition and thus in flow behavior, under the conventional view that institutional investors process information more rationally and efficiently than retail investors. All regressions control for fund–quarter-level characteristics of both the fund and its portfolio manager, as well as firm–quarter-level characteristics. Fund, year–quarter, and quarter fixed effects are included, and standard errors are clustered at the fund level. Detailed variable definitions are presented in Table A1.

[Table 4.1]

Table 4.1 Columns (1) and (3) show that for funds with higher institutional ownership, the fee reform significantly muted the sensitivity of flows to expenses. In Column (3), the expense ratio coefficient is –23.064 (significant at the 1% level), while the interaction term *Post* × *Expense* is 19.395 (1% level), implying that post-reform, the expense sensitivity of fund flows weakened by nearly the entire pre-reform magnitude.

Institutional investors act as smoother adapters—they more quickly recognize and internalize fee compression and adjust their allocation behavior accordingly. The reform triggered a paradigm shift: expenses are no longer a central driver of investment decisions. With reduced variance in fees, institutional investors gained freedom to redirect attention toward more intrinsic and quality-related fund fundamentals. Consequently, their investment decisions became less mechanical and more value-driven, emphasizing skill, performance, and efficiency over cost-based heuristics.

4.2 The Middle-Child Unbound: Mid-Tier Funds and the Attenuation of Fee Sensitivity

Sections 4.2 and 4.3 turn to the supply side of the mutual fund market, investigating how funds with different characteristics and fund companies of varying sizes reacted to the fee reform. These results reveal that the reform fostered a support-the-weak effect on the supply side. Specifically, mid-tier and small-firm funds benefited the most from reduced expense-based competition and shifting investor attention. Section 4.2 presents fund-level evidence, while Section 4.3 examines firm-level

dynamics.

The estimation again uses Equation (2), where the dependent variable is the quarterly *net flow* of the fund. The key independent variables remain the post-reform indicator, the fund's expense ratio, measures of fundamental quality, and their interaction terms. *Post* equals 1 for 2023Q3 and later quarters (the post-reform period) and 0 otherwise. *Expense Ratio* represents the fund's holding costs, including management and custodian fees, charged as a percentage of NAV. *Fund fundamentals* capture performance and its determinants, focusing on aspects investors consider when maximizing net returns beyond costs. These include fund-level metrics (e.g., returns, alpha), manager-level factors, and issuing-firm characteristics.

Funds are grouped into three performance tiers based on pre-reform returns and Jensen's alpha (measured using a six-month rolling window and weekly data): High performance (p80–p100), Mid performance (p20–p80), and Low performance (p0–p20). Controls, fixed effects, and clustering follow the same structure as in Section 4.1, with variable details listed in Table A1.

[Table 4.2]

Using alpha-based grouping as an example, Table 4.2 Columns (4)–(6) show that fee sensitivity declined most strongly among mid-tier funds. In Column (5), the expense ratio coefficient is –30.214 (1% level), while *Post* × *Expense* is 17.040 (1% level), suggesting that more than half of the pre-reform sensitivity was offset after the reform.

Before the reform, mid-tier funds often relied on expense-based competition to attract flows, as their performance was not sufficiently outstanding to draw investors purely through returns. The fee reduction compressed cost differentials, encouraging investors to refocus on fundamentals rather than costs. This shift *freed* mid-tier funds—traditionally "attention underdogs"—from fee-based competition, allowing them to compete on performance quality and management competence instead of pricing.

4.3 Grassroots Funds Unleashed: Small-Firm Funds and the Attenuation of Fee Sensitivity

At the firm level, results further confirm the *support-the-weak* pattern. Smaller fund companies—often disadvantaged in brand recognition and distribution channels—benefited disproportionately from the reform's effect on investor attention.

Table 4.3 Columns (1)–(2) present Model (1), while Columns (3)–(4) estimate Model (2), consistent with Section 4.2. The sample is divided according to the size of the issuing firm, and regressions examine how the interaction between the post-reform indicator and fund characteristics affects fund flows across firm size groups.

[Table 4.3]

Table 4.3 Columns (3) and (4) show that for funds issued by small firms, the muting effect of the reform on flow–expense sensitivity is strongest. In Column (4), the expense ratio coefficient is –22.641 (1% level), and the *Post* × *Expense* coefficient is 19.930 (1% level), indicating that post-

reform attention shifts nearly fully offset the pre-reform sensitivity of flows to expenses.

Funds managed by small firms traditionally relied on lower fees to attract investors, compensating for their limited reputation and distribution reach. After the reform, as overall expense variance declined, investors could no longer use fees as a salient heuristic for fund quality. This environment leveled the playing field—freeing small-firm funds from cost-based competition and allowing them to receive more balanced attention from investors. The reform thus contributed to a more inclusive and competitive industry structure, empowering previously disadvantaged participants on the supply side.

5 Strategic Responses: Scale vs. Quality

This section examines how the supply side of the mutual fund market responded to the challenges and opportunities brought about by the fee reduction reform. On one hand, lower fee rates exert financial pressure on fund companies and managers by compressing revenue margins; on the other hand, the reform also triggered an investor attention shift—away from expenses and toward more intrinsic fund qualities. Sections 5.1 and 5.2 analyze whether and how mutual funds and their parent firms adapted to this new environment. Specifically, Section 5.1 tests whether funds more affected by the reform sought to improve their performance to maintain their competitive position, while Section 5.2 investigates whether firms more affected by the reform responded by expanding their product lines and increasing the scale of assets under management.

5.1 The Ineffectiveness of Fund-Level Performance Enhancement Post-Reform: Active Returns and the High-Impact Fund Characteristics

This subsection explores the quality chan*nel* of supply-side adjustment—whether funds more directly impacted by the fee reform enhanced their performance to attract new inflows and offset revenue losses.

$$Reactions_{i/j,t} = Post_t * High\ Impact\ Indicator_{i/j} + Controls_{i/j,t} + \gamma_{i/j} + \delta_t + \eta_q + \varepsilon_{i/j,t} \quad (3)$$

The analysis follows Equation (3), where the dependent variable is the *quarterly active return* of fund *i*, defined as the quarterly growth of the fund's accumulated NAV minus the return of its benchmark index. The key explanatory variables are the post-reform indicator (*Post*), fund characteristics capturing how strongly a fund was affected by the reform, and their interaction term (*Post* × *Fund Characteristics*). *Post* equals 1 for 2023Q3 and subsequent quarters, and 0 for the pre-reform period (2020Q1–2023Q2). *Fund characteristics* refer to cross-sectional indicators of reform exposure, encompassing fund holding structure, performance, and firm size. These indicators are derived from Section 4 and detailed in Table A1. All regressions control for fund–quarter-level characteristics of both the fund and its portfolio manager. Fund, year–quarter, and quarter fixed effects are included, and standard errors are clustered at the fund level. Full variable definitions are provided in Table A1.

[Table 5.1]

The results in Table 5.1 show that both the statistical and economic significance of the interaction effects are weak. Funds that were more heavily impacted by the fee reform did not exhibit significantly stronger performance improvement post-reform. The evidence suggests that the quality-enhancement channel was not a common or effective strategic response among affected funds. Despite the shift in investor attention away from expenses and toward fundamental qualities, funds did not appear to respond by improving performance. One possible explanation is that the reduction in management fees diminished the direct financial incentives for fund managers and other key personnel, weakening their motivation to enhance returns. As a result, the reform's intended alignment between lower fees and higher quality may not have materialized at the fund level.

5.2 The Efficacy of Firm-Level Product Proliferation: Small Firms' Strategic Response in New Fund Launches

This subsection investigates an alternative scale-based response at the firm level. Instead of enhancing product quality, fund management companies—particularly smaller ones—may have sought to offset revenue compression by expanding their fund offerings, thereby increasing their total fee base (i.e., assets under management).

The empirical model again follows Equation (3), with the dependent variable being the *quarterly increase in the number of funds* under each firm. This variable, defined as the number of funds at the end of a quarter minus that at the beginning, captures the firm's product expansion speed. The main explanatory variables are the post-reform indicator (*Post*), firm characteristics (measuring reform exposure), and their interaction term (*Post* × *Firm Characteristics*). *Post* equals 1 for 2023Q3 and later, and 0 otherwise. *Firm characteristic* represents the *small-firm indicator*, measured by total net assets (TNA) prior to the reform, as described in Section 4 and Table A1. The regressions control for firm-level characteristics and include firm, year–quarter, and quarter fixed effects. Standard errors are clustered at the firm level. Detailed variable definitions are presented in Table A1.

[Table 5.2]

The interaction term *Post* × *Small Firm* is positive and statistically significant at the 5% level (coefficient = 0.04). This indicates that smaller firms—those more heavily affected by the fee reform—were significantly more likely to increase the number of funds they launched after the reform.

Small firms responded to fee compression not primarily by improving quality but by expanding their product portfolios. This *scale-oriented strategy* allowed them to stabilize or grow total revenue despite lower fee rates. By accelerating new fund launches, small firms could attract new investor capital and broaden their AUM base, partially compensating for the direct reduction in per-unit fee income. The results highlight a divergence in adaptation channels: while the *quality channel* proved ineffective at the fund level, the *scale channel* became a more viable and observable path for small firms seeking to maintain profitability in the post-reform era.

6 Conclusion

This paper examines how the 2023 mutual fund fee reform in China reshaped investor behavior, fund company strategies, and the broader market equilibrium. Using fund-quarter level data from CSMAR and exploiting the reform as a quasi-natural experiment, I document several key findings.

First, the reform significantly reduced investors' sensitivity to management fees, consistent with a compression of fee ranges and a muted role of expense considerations in investment and redemption decisions. Simultaneously, investors shifted their attention toward fundamental performance indicators rather than relying on fees as signals of managerial quality, highlighting a reallocation of investor focus toward more economically meaningful dimensions.

Second, I find notable cross-sectional heterogeneity. On the demand side, funds with higher institutional ownership experienced a more pronounced attenuation of fee sensitivity, reflecting quicker learning and smoother adaptation by professional investors. On the supply side, mid-tier performance funds and small issuing firms benefited disproportionately from the reform, as attention freed from expense-based comparisons allowed these traditionally less visible funds to attract more investor flows. These findings underscore how both supply- and demand-side characteristics mediate the transmission of fee reforms, emphasizing differences in information processing, investor sophistication, and market positioning.

Third, I explore fund and company responses to the reform. Unlike what might be expected, there is no systematic improvement in fund-level performance among highly impacted funds; rather, firms predominantly adopted a scale-based response, expanding the number of fund products to maintain total fee revenue. This suggests that firm managers responded strategically to fee compression by leveraging product proliferation rather than attempting to enhance performance quality.

Overall, my results indicate that fee reforms can improve market efficiency by reducing the prominence of costs in investor decision-making and encouraging attention to fundamentals. However, they also reshape competitive dynamics, favoring mid-tier and smaller funds and prompting scale-oriented strategic responses. These insights contribute to a more nuanced understanding of the interplay between fee structures, investor behavior, and fund industry strategies, with implications for market design and regulation.

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Tables

Table 2.1: Summary Statistics

Variables \ Statistics	Obs	Skew	Kurt	Mean	SD	Min	P25	Med	P75	Max
Panel A: Dependent Variables										
Netflow (TNA)	81,807	0.88	5.12	-0.03	0.18	-0.39	-0.11	-0.04	0.00	0.48
Netflow (NavShare)	81,807	0.94	5.25	-0.03	0.18	-0.39	-0.10	-0.03	0.00	0.50
Netflow (Share)	81,807	0.90	5.13	-0.03	0.18	-0.38	-0.10	-0.03	0.00	0.48
Inflow (Share)	81,807	2.40	7.94	0.13	0.23	0.00	0.01	0.03	0.13	0.91
Outflow (Share)	81,807	1.54	4.56	0.16	0.17	0.01	0.04	0.09	0.22	0.66
Panel B: Fund Characteristics										
Expense Ratio	81,807	-0.74	2.37	1.40	0.35	0.65	1.22	1.40	1.75	1.75
Past Return	81,807	0.51	4.31	0.01	0.09	-0.21	-0.04	0.00	0.05	0.33
Alpha	81,807	0.35	3.44	-0.05	0.44	-1.03	-0.32	-0.05	0.17	1.24
Star	81,807	1.40	2.97	0.21	0.41	0.00	0.00	0.00	0.00	1.00
Fund TNA	81,807	-0.37	2.96	19.38	1.76	14.32	18.20	19.52	20.62	23.19
Fund Age	81,807	1.12	3.73	5.79	4.26	0.00	3.00	5.00	8.00	18.00
StdReturn	81,807	0.08	2.59	2.50	1.29	0.14	1.65	2.56	3.36	6.84
Panel C: Manager Characteristics										
Manager Tenure	81,807	1.07	3.65	2.61	2.19	0.00	1.00	2.00	4.00	9.00
Manager Change	81,807	3.97	16.72	0.05	0.23	0.00	0.00	0.00	0.00	1.00
Degree	81,807	1.22	7.15	0.08	0.35	-1.00	0.00	0.00	0.00	1.00
Gender	81,807	-1.57	3.47	0.81	0.39	0.00	1.00	1.00	1.00	1.00
Panel D: Firm Characteristics										
Firm TNA	81,807	-0.88	3.41	25.87	1.49	21.05	24.93	26.21	27.14	27.98
Firm Fund Number	81,807	0.75	2.35	1.51	1.11	0.06	0.63	1.05	2.33	4.08
Firm Age	81,807	-0.67	2.64	17.98	5.71	3.00	15.00	19.00	22.00	27.00

Table 3.1: Fee Reduction Reform and Attenuated Flow-Expense Sensitivity

	Netflow		
	TNA	NavShare	Share
Post * Expense Ratio	15.426***	16.390***	15.518***
	(4.19)	(4.41)	(4.29)
Expense Ratio	-30.518***	-29.981***	-28.995***
	(-6.16)	(-6.07)	(-6.10)
Past Return	0.109***	0.113***	0.099***
	(7.76)	(7.94)	(7.20)
Star	0.024***	0.024***	0.023***
	(11.51)	(11.43)	(11.51)
Alpha	0.020***	0.020***	0.021***
	(7.32)	(7.48)	(7.86)
StdReturn	0.001	0.001	0.001
	(1.06)	(0.75)	(0.88)
Fund TNA	-0.079	-0.079	-0.076
	(-46.92)	(-46.55)	(-46.35)
Fund Age	-0.003	-0.003	-0.003
	(-1.56)	(-1.56)	(-1.58)
Netflow lagged	0.223	0.23	0.223
	(41.52)	-(2.40)	(42.73)
Manager Tenure	-0.002***	-0.002**	-0.002**
	(-2.68)	(-2.47)	(-2.47)
Manager Change	-0.011***	-0.011***	-0.011***
	(-3.50)	(-3.29)	(-3.49)
Degree	0.006	0.006	0.005
	(1.22)	(0.22)	(1.21)
Gender	0.005	0.004	0.004
	(1.13)	(0.99)	(1.03)
Firm Fund Number	-0.012***	-0.013***	-0.011***
	(-3.45)	(-3.43)	(-3.27)
Firm TNA	0.018***	0.019***	0.018***
	(4.31)	(4.49)	(4.50)
Firm Age	0.006	0.007	0.006
	(0.45)	(0.52)	(0.51)
FE	Y	Y	Y
Obs	81,668	81,668	81,668
R^2	0.240	0.240	0.240

Notes: This table reports the OLS estimation results examining the effect of the interaction between the fund's quarterly expense and the post-reform time indicator on the fund's quarterly net flow. Netflow is defined as the net growth in fund assets beyond reinvested dividends (Sirri and Tufano, 1998). It measures the percentage growth of a fund's assets in excess of the growth that would have occurred if no new capital had flowed in and all dividends had been reinvested. Three methods for calculating Netflow are presented. The first column reports results using the fund's quarterly total net assets (TNA) and the return of accumulated net asset value (NAV). The second column reports results where TNA is derived from NAV and fund shares. The third column reports

results based on fund shares and the return of accumulated NAV. Post is a time indicator capturing the period relative to the mutual fund fee reduction reform that took place in 2023Q3. It equals 0 for quarters between 2020Q1 and 2023Q2, and 1 for 2023Q3 and subsequent quarters. Expense denotes the holding expenses of the fund, including both the management fee and the custodian fee, which are charged as a percentage of the fund's net asset value during the holding period. All regressions control for fund–quarter-level characteristics of the fund and its portfolio manager, they also control for firm-quarter-level characteristics. Fund, year-quarter, and quarter fixed effects are included in all regressions. Standard errors are clustered at the fund level. T-values are reported in the parentheses. *, **, *** indicate significance at the 10%,5%and 1% levels, respectively.

Table 3.2: Fee Reduction Reform and Heightened Attention on Fundamental Qualities

	Netflow			
Post * Expense Ratio	15.478***	15.377***	15.897***	15.864***
	(3.94)	(3.90)	(4.06)	(4.04)
Expense Ratio	-29.742***	-29.046***	-29.618***	-28.895***
	(-5.79)	(-5.63)	(-5.79)	(-5.62)
Post * Past Return	0.003	0.002	0.003	0.002
	(0.11)	(0.06)	(0.11)	(0.06)
Past Return	0.112***	0.113***	0.111***	0.112***
	(5.94)	(6.00)	(5.92)	(5.99)
Post * Star	-0.017***	-0.017***	-0.018***	-0.017***
	(-4.37)	(-4.36)	(-4.45)	(-4.43)
Star	0.032***	0.032***	0.032***	0.032***
	(10.56)	(10.56)	(10.60)	(10.60)
Post * Alpha	0.012**	0.012**	0.013***	0.013***
	(2.50)	(2.48)	(2.60)	(2.59)
Alpha	0.014***	0.014***	0.014***	0.013***
	(3.81)	(3.80)	(3.70)	(3.69)
Post * StdReturn	0.003**	0.004**	0.003**	0.004**
	(2.18)	(2.34)	(2.16)	(2.35)
StdReturn	0.000	-0.001	0.000	-0.001
	(-0.14)	(-0.39)	(-0.15)	(-0.42)
Post * Fund TNA	-0.004***	-0.004***	-0.004***	-0.004***
	(-5.21)	(-4.39)	(-4.48)	(-3.86)
Fund TNA	-0.077	-0.077	-0.077	-0.077
	(-44.40)	(-44.61)	(-44.38)	(-44.57)
Post * Fund Age	0.000	0.000	0.000	0.000
	(0.92)	(0.65)	(1.45)	(1.27)
Fund Age	-0.004**	-0.004**	-0.003	-0.003*
	(-1.99)	(-2.08)	(-1.59)	(-1.68)
Netflow lagged	0.223	0.223	0.223	0.222
	(41.16)	(41.05)	(41.01)	(40.90)
Post * Firm Fund Number		0.004*		0.004*
		(1.72)		(1.71)
Firm Fund Number		-0.022***		-0.022***
		(-3.79)		(-3.77)
Post * Firm TNA		0.002		0.003
		(1.31)		(1.43)
Firm TNA		0.016***		0.016***
		(3.73)		(3.71)
Post * Firm Age		0.000		0.000
		(0.14)		(0.08)
Firm Age		0.003		0.002
		(0.23)		(0.18)

Post * Manager Tenure			-0.002**	-0.002**
			(-2.38)	(-2.45)
Manager Tenure			-0.001	-0.001
			(-0.91)	(-0.76)
Post * Manager Change			-0.006	-0.005
			(-0.90)	(-0.79)
Manager Change			-0.009*	-0.009**
			(-1.93)	(-1.98)
Post * Degree			0.001	0.001
			(0.21)	(0.25)
Degree			0.005	0.005
			(0.95)	(1.02)
Post * Gender			0.002	0.002
			(0.56)	(0.45)
Gender			0.004	0.004
			(0.83)	(0.87)
FE	Y	Y	Y	Y
Obs	81,668	81,668	81,668	81,668
R^2	0.240	0.240	0.240	0.241

Notes: This table reports the OLS estimation results examining the effect of the interaction between the post-reform time indicator and the fund's quarterly characteristics (holding expense and fundamental quality proxies) on the fund's quarterly net flow. Netflow is defined as the net growth in fund assets beyond reinvested dividends (Sirri and Tufano, 1998). It measures the percentage growth of a fund's assets in excess of the growth that would have occurred if no new capital had flowed in and all dividends had been reinvested. Post is a time indicator capturing the period relative to the mutual fund fee reduction reform that took place in 2023Q3. It equals 0 for quarters between 2020Q1 and 2023Q2, and 1 for 2023Q3 and subsequent quarters. Expense denotes the holding expenses of the fund, including both the management fee and the custodian fee, which are charged as a percentage of the fund's net asset value during the holding period. Alpha refers to Jensen's alpha, computed over a rolling two-quarter window using weekly returns, measured at the beginning of each quarter. Total TNA is defined as the natural logarithm of one plus the total net assets of the fund. Column (1) includes only firm-level controls, while Columns (2) and (3) additionally include manager-level and firm-level controls, respectively. Fund, year-quarter, and quarter fixed effects are included in all regressions. Standard errors are clustered at the fund level. T-values are reported in the parentheses. *, **, *** indicate significance at the 10%,5%and 1% levels, respectively.

Table 3.3: Fee Reduction Reform and Fund Flows: Inflow and Outfow

	Fund Flow			Fund Flow		
	Netflow	Inflow	Outflow	Netflow	Inflow	Outflow
Post * Expense Ratio	15.518***	-0.644	-17.739***	16.059***	3.857	-14.149***
	(4.29)	(-0.14)	(-5.72)	(4.16)	(0.76)	(-3.99)
Expense Ratio	-28.995***	-31.689***	0.567	-27.589***	-33.533***	-2.579
	(-6.10)	(-5.19)	(0.15)	(-5.60)	(-5.30)	(-0.62)
Past Return	0.099***	0.321***	0.253***	0.097***	0.346***	0.289***
	(7.20)	(21.23)	(24.15)	(5.32)	(17.02)	(21.62)
Star	0.023***	0.039***	0.014***	0.031***	0.056***	0.022***
	(11.51)	(16.08)	(7.90)	(10.73)	(15.92)	(8.94)
Alpha	0.021***	0.047***	0.028***	0.015***	0.042***	0.031***
	(7.86)	(14.74)	(11.66)	(4.16)	(9.76)	(9.73)
StdReturn	0.001	0.010***	0.009***	-0.001	0.013***	0.015***
	(0.88)	(5.43)	(6.76)	(-0.46)	(6.09)	(9.31)
Fund TNA	-0.076	-0.069***	0.015***	-0.075	-0.068***	0.015***
	(-46.35)	(-35.73)	(9.14)	(-43.92)	(-34.03)	(8.74)
Fund Age	-0.003	-0.022***	-0.020***	-0.004*	-0.013***	-0.009***
	(-1.58)	(-6.27)	(-7.86)	(-1.76)	(-3.35)	(-3.13)
Netflow lagged	0.223	0.202***	-0.044***	0.222	0.200***	-0.045***
	(42.73)	(33.86)	(-9.59)	(42.04)	(33.43)	(-9.85)
Manager Tenure	-0.002**	-0.005***	-0.003***	0.000	-0.002**	-0.002**
	(-2.47)	(-5.31)	(-4.58)	(-0.56)	(-2.30)	(-2.49)
Manager Change	-0.011***	0.003	0.014***	-0.008**	0.009*	0.018***
	(-3.49)	(0.73)	(5.30)	(-1.97)	(1.76)	(5.09)
Degree	0.005	0.007	0.001	0.005	0.006	0.000
	(1.21)	(1.19)	(0.30)	(1.08)	(0.93)	(0.06)
Gender	0.004	0.008	0.002	0.003	0.007	0.003
	(1.03)	(1.49)	(0.57)	(0.78)	(1.28)	(0.69)
Firm Fund Number	-0.011***	-0.008	0.004	-0.021***	-0.01	0.006
	(-3.27)	(-1.57)	(0.86)	(-3.62)	(-1.43)	(0.99)
Firm TNA	0.018***	0.022***	-0.001	0.016***	0.023***	0.002
	(4.50)	(3.97)	(-0.30)	(3.90)	(4.03)	(0.49)
Firm Age	0.006	-0.002	-0.007	0.003	-0.001	-0.002
	(0.51)	(-0.13)	(-0.69)	-(0.24)	(-0.03)	(-0.21)
Post * Past Return				0.017	-0.078***	-0.126***
				(0.64)	(-2.68)	(-6.23)
Post * Star				-0.018***	-0.036***	-0.016***
				(-4.70)	(-7.76)	(-4.90)
Post * Alpha				0.012**	0.006	-0.012***
				(2.43)	(1.06)	(-2.75)
Post * StdReturn				0.003**	-0.006**	-0.010***
				(2.18)	(-2.46)	(-6.08)

Post * Fund TNA				-0.003***	-0.001	0.004***
				(-3.71)	(-0.51)	(4.07)
Post * Fund Age				0.000	0.003***	0.003***
				(1.05)	(5.66)	(7.00)
Post * Manager Tenure				-0.002**	-0.003***	-0.001
				(-2.53)	(-3.10)	(-1.52)
Post * Manager Change				-0.005	-0.01	-0.008
				(-0.80)	(-1.47)	(-1.57)
Post * Degree				0.000	0.001	0.002
				(0.02)	(0.23)	(0.40)
Post * Gender				0.002	0.002	-0.001
				(0.46)	(0.33)	(-0.30)
Post * Firm Fund Number				0.004*	0.005	0.003
				(1.66)	(1.58)	(1.12)
Post * Firm TNA				0.002	-0.003	-0.006***
				(1.25)	(-1.15)	(-2.85)
Post * Firm Age				0.000	0.000	0.000
				(0.33)	(-0.36)	(-0.68)
FE	Y	Y	Y	Y	Y	Y
Obs	81,668	81,668	81,668	81,668	81,668	81,668
R^2	0.240	0.422	0.441	0.241	0.424	0.444

Notes: This table reports the OLS estimation results examining the effect of the interaction between the post-reform time indicator and the fund's quarterly characteristics (holding expense and fundamental quality proxies) on the fund's quarterly net flow, inflow, and outflow. Netflow is defined as the net growth in fund shares. Correspondingly, inflow and outflow are measured as the total purchased and redeemed shares during the period, divided by the number of shares outstanding at the beginning of the period, respectively. Post is a time indicator capturing the period relative to the mutual fund fee reduction reform that took place in 2023Q3. It equals 0 for quarters between 2020Q1 and 2023Q2, and 1 for 2023Q3 and subsequent quarters. Expense denotes the holding expenses of the fund, including both the management fee and the custodian fee, which are charged as a percentage of the fund's net asset value during the holding period. Alpha refers to Jensen's alpha, computed over a rolling two-quarter window using weekly returns, measured at the beginning of each quarter. Total TNA is defined as the natural logarithm of one plus the total net assets of the fund. All regressions control for fund–quarter-level characteristics of the fund and its portfolio manager, they also control for firm-quarter-level characteristics. Fund, year-quarter, and quarter fixed effects are included in all regressions. Standard errors are clustered at the fund level. T-values are reported in the parentheses. *, **, *** indicate significance at the 10%,5%and 1% levels, respectively.

Table 4.1: Funds Heavily Held by Institutions and More Pronounced Attenuation of Fee Sensitivity

	Netflow			
	Institutional Investor Ratio		Institutional Investor Ratio	
	High	Low	High	Low
Post * Expense Ratio	21.967***	-1.547	19.395***	0.257
	(3.83)	(-0.33)	(3.19)	(0.05)
Expense Ratio	-25.091***	-30.489***	-23.064**	-27.765***
	(-2.76)	(-5.87)	(-2.50)	(-5.04)
Past Return	0.122***	0.135***	0.145***	0.155***
	(5.51)	(7.25)	(5.07)	(6.30)
Star	0.034***	0.011***	0.042***	0.016***
	(10.40)	(4.49)	(9.56)	-(4.36)
Alpha	0.026***	0.010***	0.017***	0.004
	(6.07)	(3.14)	(2.94)	(0.93)
StdReturn	-0.001	0.004***	-0.004	0.002
	(-0.69)	(2.76)	(-1.49)	(1.23)
Fund TNA	-0.073***	-0.087***	-0.073***	-0.086***
	(-36.28)	(-24.58)	(-33.86)	(-23.41)
Fund Age	-0.004	0.000	-0.004	0.001
	(-1.01)	(0.02)	(-1.00)	(0.55)
Netflow lagged	0.234***	0.221***	0.235***	0.220***
	(34.56)	(20.73)	(34.31)	(20.42)
Manager Tenure	-0.002**	-0.001	-0.001	0.000
	(-2.33)	(-1.10)	(-0.97)	(-0.11)
Manager Change	-0.016***	-0.004	-0.016**	-0.001
	(-3.00)	(-1.22)	(-2.32)	(-0.27)
Degree	0.007	0.002	0.005	0.002
	(0.90)	(0.27)	-(0.66)	(0.29)
Gender	0.000	0.011**	0.000	0.010*
	(-0.06)	(2.20)	(0.04)	(1.81)
Firm Fund Number	-0.013**	-0.016***	-0.030***	-0.020***
	(-2.35)	(-3.83)	(-3.19)	(-2.98)
Firm TNA	0.020***	0.015**	0.020***	0.01
	(3.11)	(2.27)	(3.07)	(1.52)
Firm Age	0.017	-0.011	0.013	-0.011
	(0.79)	(-0.51)	(0.58)	(-0.49)
Post * Past Return			-0.064	-0.05
			(-1.51)	(-1.48)
Post * Star			-0.020***	-0.011**
			(-3.25)	(-2.22)
Post * Alpha			0.022***	0.016***
			(2.72)	(2.67)
Post * StdReturn			0.005**	0.004*

			(2.05)	(1.96)
Post * Fund TNA			0.001	-0.007***
			-(0.75)	(-5.88)
Post * Fund Age			0.000	0.001***
			(-0.05)	(3.62)
Post * Manager Tenure			-0.002*	-0.001
			(-1.91)	(-0.69)
Post * Manager Change			0.001	-0.006
			-(0.05)	(-0.82)
Post * Degree			0.004	-0.002
			(0.73)	(-0.40)
Post * Gender			-0.001	0.001
			(-0.15)	(0.34)
Post * Firm Fund Number			0.008*	0.004
			(1.74)	(1.25)
Post * Firm TNA			0.001	0.004
			(0.35)	(1.43)
Post * Firm Age			0.000	0.000
			(0.34)	(-0.72)
FE	Y	Y	Y	Y
Obs	38,830	34,343	38,830	34,343
R^2	0.215	0.273	0.216	0.275

Notes: This table reports the OLS estimation results examining the effect of the interaction between the post-reform time indicator and the fund's quarterly characteristics (holding expense and fundamental quality proxies) on the fund's quarterly net flow, grouped by the fund's investor structure. Netflow is defined as the net growth in fund assets beyond reinvested dividends (Sirri and Tufano, 1998). It measures the percentage growth of a fund's assets in excess of the growth that would have occurred if no new capital had flowed in and all dividends had been reinvested. Post is a time indicator capturing the period relative to the mutual fund fee reduction reform that took place in 2023Q3. It equals 0 for quarters between 2020Q1 and 2023Q2, and 1 for 2023Q3 and subsequent quarters. Expense denotes the holding expenses of the fund, including both the management fee and the custodian fee, which are charged as a percentage of the fund's net asset value during the holding period. Alpha refers to Jensen's alpha, computed over a rolling two-quarter window using weekly returns, measured at the beginning of each quarter. Total TNA is defined as the natural logarithm of one plus the total net assets of the fund. All regressions control for fund–quarter-level characteristics of the fund and its portfolio manager, they also control for firm-quarter-level characteristics. Fund, year-quarter, and quarter fixed effects are included in all regressions. Standard errors are clustered at the fund level. T-values are reported in the parentheses. *, **, *** indicate significance at the 10%,5%and 1% levels, respectively.

Table 4.2: Mid-Tier Funds and More Pronounced Attenuation of Fee Sensitivity

	Netflow					
	Fund Performance (Return)			Fund Performance (Alpha)		
	High	Mid	Low	High	Mid	Low
Post * Expense Ratio	18.128*	12.573***	0.946	12.872	17.040***	7.42
	(1.91)	(2.68)	(0.08)	(1.39)	(3.47)	(0.72)
Expense Ratio	-22.163*	-35.147***	-11.63	-39.267***	-30.214***	-9.269
	(-1.73)	(-5.32)	(-1.55)	(-3.01)	(-4.83)	(-1.20)
Post * Past Return	-0.067	0.071*	-0.287***	-0.021	0.071**	-0.237***
	(-1.11)	(1.95)	(-5.47)	(-0.34)	(2.17)	(-5.21)
Past Return	0.140***	0.077***	0.376***	0.123***	0.120***	0.347***
	(3.20)	(3.03)	(9.66)	(3.03)	(5.10)	(9.97)
Post * Alpha	-0.001	-0.005	0.008			
	(-0.13)	(-0.75)	(0.89)			
Alpha	0.056***	0.032***	0.019***			
	(7.74)	-(7.10)	(2.93)			
Post * Star				-0.005	-0.026***	-0.003
				(-0.66)	(-5.92)	(-0.38)
Star				0.035***	0.039***	0.036***
				(5.73)	(11.60)	(5.96)
Post * StdReturn	-0.002	0.008***	-0.005	0.000	0.007***	-0.002
	(-0.65)	(3.37)	(-1.47)	(0.02)	(3.20)	(-0.57)
StdReturn	-0.002	-0.005**	0.011***	-0.002	-0.005**	0.007**
	(-0.44)	(-2.27)	(4.19)	(-0.36)	(-2.46)	(2.34)
Post * Fund TNA	-0.002	-0.004***	-0.003*	-0.006**	-0.003**	-0.003*
	(-0.90)	(-3.06)	(-1.89)	(-2.25)	(-2.26)	(-1.82)
Fund TNA	-0.070***	-0.079***	-0.098***	-0.066***	-0.079***	-0.097***
	(-21.37)	(-32.16)	(-21.61)	(-20.02)	(-33.13)	(-21.57)
Post * Fund Age	-0.001	0.000	0.000	0.000	0.000	0.000
	(-1.22)	(1.23)	-(0.30)	(-0.13)	(0.68)	(-0.59)
Fund Age	0.005	-0.009***	0.004	0.006	-0.007***	0.002
	(1.09)	(-3.38)	(1.02)	(1.26)	(-2.68)	(0.45)
Netflow lagged	0.233***	0.236***	0.192***	0.255***	0.232***	0.194***
	(20.62)	(32.93)	(14.12)	(22.55)	(32.16)	(14.57)
Post * Manager Tenure	0.000	-0.002**	-0.003**	0.000	-0.002***	-0.003*
	(0.06)	(-2.26)	(-2.38)	(-0.22)	(-2.68)	(-1.92)
Manager Tenure	0.001	-0.001	-0.002	0.000	0.000	-0.002
	(0.53)	(-0.59)	(-0.93)	(0.14)	(0.08)	(-1.20)
Post * Manager Change	-0.010	0.000	-0.018	-0.013	-0.002	-0.007
	(-0.65)	(0.02)	(-1.39)	(-0.81)	(-0.21)	(-0.53)
Manager Change	-0.028***	-0.008	0.004	-0.022**	-0.007	-0.004

	(-2.74)	(-1.36)	(0.42)	(-2.10)	(-1.26)	(-0.43)
Post * Degree	0.006	-0.003	0.003	-0.005	0.000	0.005
	(0.58)	(-0.59)	(0.47)	(-0.44)	(0.06)	(0.70)
Degree	0.011	0.004	0.011	0.009	0.004	0.006
	(0.90)	(0.70)	(1.08)	(0.69)	(0.64)	(0.57)
Post * Gender	-0.020**	0.003	0.008	-0.002	0.000	0.008
	(-1.97)	(0.68)	(1.33)	(-0.23)	(0.03)	(1.36)
Gender	0.008	0.006	0.002	0.011	0.002	0.010
	(0.68)	(1.03)	(0.27)	(1.00)	(0.33)	(1.02)
Post * Firm Fund Number	0.009	0.003	0.004	0.021***	0.002	0.001
	(1.24)	(0.79)	(0.89)	(2.94)	(0.53)	(0.30)
Firm Fund Number	-0.043***	-0.011	-0.034***	-0.041***	-0.016**	-0.032***
	(-3.00)	(-1.43)	(-3.06)	(-2.73)	(-2.07)	(-2.84)
Post * Firm TNA	0.000	0.004*	0.004	-0.009*	0.006***	0.006*
	-(0.07)	(1.67)	(1.11)	(-1.88)	(2.65)	(1.79)
Firm TNA	0.005	0.014**	0.019*	0.013	0.009*	0.024**
	(0.46)	(2.50)	(1.82)	(1.14)	(1.66)	(2.43)
Post * Firm Age	0.001	-0.001*	0.001	0.002**	-0.001**	0.001
	(1.64)	(-1.75)	(1.10)	(2.20)	(-2.43)	(0.99)
Firm Age	-0.045	0.009	0.035	-0.093***	0.025	0.008
	(-1.63)	(0.56)	(1.46)	(-4.54)	(1.40)	(0.37)
FE	Y	Y	Y	Y	Y	Y
Obs	15,546	44,914	14,928	15,204	45,278	14,938
R^2	0.241	0.228	0.271	0.237	0.228	0.270

Notes: The sample is divided into three groups according to the fund's pre-reform performance, measured by return and Jensen's alpha, respectively. Performance is evaluated over a half-year rolling window using weekly data. Funds are classified as high-performance (p80–p100), mid-performance (p20–p80), and low-performance (p0–p20). Netflow is defined as the net growth in fund assets beyond reinvested dividends (Sirri and Tufano, 1998). It measures the percentage growth of a fund's assets in excess of the growth that would have occurred if no new capital had flowed in and all dividends had been reinvested. Post is a time indicator capturing the period relative to the mutual fund fee reduction reform that took place in 2023Q3. It equals 0 for quarters between 2020Q1 and 2023Q2, and 1 for 2023Q3 and subsequent quarters. Expense denotes the holding expenses of the fund, including both the management fee and the custodian fee, which are charged as a percentage of the fund's net asset value during the holding period. Alpha refers to Jensen's alpha, computed over a rolling two-quarter window using weekly returns, measured at the beginning of each quarter. Total TNA is defined as the natural logarithm of one plus the total net assets of the fund. All regressions control for fund–quarter-level characteristics of the fund and its portfolio manager, they also control for firm-quarter-level characteristics. Fund, year-quarter, and quarter fixed effects are included in all regressions. Standard errors are clustered at the fund level. T-values are reported in the parentheses. *, **, *** indicate significance at the 10%,5%and 1% levels, respectively.

Table 4.3: Small-Firm Funds and More Pronounced Attenuation of Fee Sensitivity

	Netflow			
	Firm Size (TNA)		Firm Size (TNA)	
	Big	Small	Big	Small
Post * Expense Ratio	12.211*	19.043***	9.475	19.930***
	(1.74)	(4.14)	(1.31)	(4.00)
Expense Ratio	-33.954***	-23.582***	-31.815***	-22.641***
	(-3.40)	(-3.81)	(-3.16)	(-3.52)
Past Return	0.113***	0.133***	0.128***	0.156***
	(5.62)	(6.20)	(4.84)	(5.57)
Star	0.025***	0.025***	0.033***	0.033***
	(8.79)	(7.63)	(7.91)	(7.45)
Alpha	0.013***	0.023***	0.003	0.017***
	(3.41)	(5.96)	(0.64)	(3.22)
StdReturn	-0.003	0.003	-0.006***	0.002
	(-1.50)	(1.57)	(-2.63)	(0.91)
Fund TNA	-0.079***	-0.075***	-0.079***	-0.074***
	(-31.79)	(-31.57)	(-30.47)	(-30.25)
Fund Age	-0.006**	0.003	-0.007***	0.002
	(-2.49)	(0.88)	(-2.69)	(0.46)
Netflow lagged	0.279***	0.200***	0.278***	0.199***
	(35.42)	(25.66)	(34.97)	(25.23)
Manager Tenure	-0.002**	-0.001	0.000	-0.001
	(-2.45)	(-1.02)	(0.06)	(-0.96)
Manager Change	-0.012**	-0.008*	-0.01	-0.007
	(-2.53)	(-1.79)	(-1.51)	(-1.09)
Degree	-0.001	0.009	-0.002	0.008
	(-0.13)	(1.36)	(-0.30)	(1.19)
Gender	0.002	0.005	0.002	0.005
	(0.35)	(0.80)	(0.26)	(0.75)
Firm Fund Number	-0.003	0.002	-0.003	-0.004
	(-0.57)	(0.13)	(-0.36)	(-0.20)
Post * Past Return			-0.036	-0.065
			(-0.97)	(-1.62)
Post * Star			-0.018***	-0.019***
			(-3.17)	(-3.24)
Post * Alpha			0.025***	0.013*
			(3.54)	(1.83)
Post * StdReturn			0.007***	0.002
			(3.00)	(0.71)
Post * Fund TNA			-0.002	-0.004***
			(-1.45)	(-2.69)
Post * Fund Age			0.001	-0.001
			(1.46)	(-1.28)

Post * Manager Tenure			-0.003***	0.001
			(-4.11)	(0.50)
Post * Manager Change			-0.002	-0.004
			(-0.18)	(-0.45)
Post * Degree			0.001	0.000
			(0.27)	(0.04)
Post * Gender			0.002	-0.001
			(0.46)	(-0.27)
Post * Firm Fund Number			0.004	0.004
			(1.33)	(0.55)
Post * Firm Age			-0.002***	0.001***
			(-3.30)	(2.67)
FE	Y	Y	Y	Y
Obs	37,117	36,131	37,117	36,131
R^2	0.256	0.209	0.257	0.210

Notes: This table reports the OLS estimation results examining the effect of the interaction between the post-reform time indicator and the fund's quarterly characteristics (holding expense and fundamental quality proxies) on the fund's quarterly net flow, grouped by the issuing firm's size. Netflow is defined as the net growth in fund assets beyond reinvested dividends (Sirri and Tufano, 1998). It measures the percentage growth of a fund's assets in excess of the growth that would have occurred if no new capital had flowed in and all dividends had been reinvested. Post is a time indicator capturing the period relative to the mutual fund fee reduction reform that took place in 2023Q3. It equals 0 for quarters between 2020Q1 and 2023Q2, and 1 for 2023Q3 and subsequent quarters. Expense denotes the holding expenses of the fund, including both the management fee and the custodian fee, which are charged as a percentage of the fund's net asset value during the holding period. Alpha refers to Jensen's alpha, computed over a rolling two-quarter window using weekly returns, measured at the beginning of each quarter. Total TNA is defined as the natural logarithm of one plus the total net assets of the fund. All regressions control for fund–quarter-level characteristics of the fund and its portfolio manager, they also control for firm-quarter-level characteristics. Fund, year-quarter, and quarter fixed effects are included in all regressions. Standard errors are clustered at the fund level. T-values are reported in the parentheses. *, **, *** indicate significance at the 10%,5%and 1% levels, respectively.

Table 5.1: Active Returns and the High-Impact Fund Characteristics

	Active Return			
	Holding Structure	Fund Performance		Firm Size
Post * High Institional Investor Ratio	-0.002*			
	(-1.78)			
Post * Mid-Tier Return		0.000		
		(0.24)		
Post * Mid-Tier Alpha			0.000	
			(-0.14)	
Post * Small Firm				-0.002*
				(-1.71)
Past Return	-0.188***	-0.186***	-0.186***	-0.189***
	(-24.03)	(-24.14)	(-24.14)	(-24.01)
Expense Ratio	-6.421***	-6.385***	-6.360***	-6.576***
	(-5.18)	(-5.23)	(-5.25)	(-5.36)
Fund TNA	-0.010***	-0.010***	-0.010***	-0.010***
	(-14.89)	(-15.28)	(-15.35)	(-15.00)
Netflow lagged	0.005***	0.006***	0.006***	0.006***
	(2.62)	(2.77)	(2.77)	(2.74)
Fund Age	-0.002***	-0.002***	-0.002***	-0.002***
	(-2.81)	(-3.12)	(-3.13)	(-3.02)
Alpha	0.025***	0.024***	0.024***	0.025***
	(17.14)	(16.96)	(16.96)	(17.11)
Manager Tenure	0.000	0.000	0.000	0.000
	(-1.07)	(-0.64)	(-0.64)	(-1.05)
Manager Change	-0.008***	-0.008***	-0.008***	-0.008***
	(-6.03)	(-6.15)	(-6.15)	(-6.02)
Degree	0.001	0.000	0.000	0.001
	(0.40)	(-0.10)	(-0.09)	(0.44)
Gender	0.002	0.002	0.002	0.002
	(1.20)	(0.92)	(0.92)	(1.18)
Firm Fund Number	0.007***	0.007***	0.007***	0.005**
	(4.15)	(4.25)	(4.26)	(2.55)
Firm TNA	-0.002	-0.003	-0.003	-0.002
	(-1.20)	(-1.34)	(-1.35)	(-1.12)
Firm Age	0.011*	0.007	0.007	0.011*
	(1.80)	(1.20)	(1.19)	(1.76)
FE	Y	Y	Y	Y
Obs	73,173	75,420	75,420	73,248
R^2	0.805	0.804	0.804	0.805

Notes: This table reports the OLS estimation results examining the effect of the interaction between the post-reform time indicator and fund-level cross-sectional indicators capturing funds most affected by the reform on the fund's quarterly active return. Active Return is defined as the fund's quarterly return in excess of its benchmark return. Post is a time indicator capturing the period

relative to the mutual fund fee reduction reform that took place in 2023Q3. It equals 0 for quarters between 2020Q1 and 2023Q2, and 1 for 2023Q3 and subsequent quarters. All regressions control for fund–quarter-level characteristics of the fund and its portfolio manager. Fund, year-quarter, and quarter fixed effects are included in all regressions. Standard errors are clustered at the fund level. T-values are reported in the parentheses. *, **, *** indicate significance at the 10%,5%and 1% levels, respectively.

Table 5.2: Fund Launching by Small Firms Post-Reform

	△#(Firm's Fund)
Post * Small Firm	0.004**
	(2.15)
Firm Fund Number	-0.014***
	(-2.85)
Firm TNA	0.002
	(1.37)
Firm Age	-0.003*
	(-1.97)
FE	Y
Obs	2,695
R^2	0.680

Notes: This table reports the OLS estimation results examining the effect of the interaction between the post-reform time indicator and firm-level cross-sectional indicators capturing firms most affected by the reform on the quarterly change in the number of funds established by the firm. The dependent variable is the quarterly change in the number of funds managed by the firm. Post is a time indicator capturing the period relative to the mutual fund fee reduction reform that took place in 2023Q3. It equals 0 for quarters between 2020Q1 and 2023Q2, and 1 for 2023Q3 and subsequent quarters. The regression control for firm-level characteristics. Firm, year-quarter, and quarter fixed effects are included in all regressions. Standard errors are clustered at the firm level. T-values are reported in the parentheses. *, **, *** indicate significance at the 10%,5%and 1% levels, respectively.

Appendix

TableA1 : Variable Definitions

Variables	Definition
Panel A: Dependent Variables	
Netflow (TNA)	(Quarter-end TNA−Quarter-start TNA×(1+Growth of accumulated NAV))/Quarter-start TNA
Netflow (NavShare)	Equivalent to the fund's net inflow ratio, with TNA calculated as total shares outstanding multiplied by accumulated NAV
Netflow (Share)	(#Quarter-end shares - #Quarter-start shares) / #Quarter-start shares
Inflow (Share)	#Shares purchased during the quarter / #Quarter-start shares
Outflow (Share)	#Shares redeemed during the quarter / #Quarter-start shares
Panel B: Fund Characteristics	
Expense Ratio	Holding expense, sum of management fee and custodian fee
Past Return	Quarterlly growth of accumulated NAV
Alpha	Jensen's alpha
Star	Equals 1 if the fund's return percentile rank (based on a half-year rolling window with weekly frequency) falls within the top 20% of funds in the same category in the previous quarter, and 0 otherwise.
Fund TNA	ln (1+total net asset)
Fund Age	Number of years since the fund's inception.
StdReturn	Standard deviation of the fund's weekly returns over a half-year rolling window.
Panel C: Manager Characteristics	
Manager Tenure	Number of years the current manager has managed the fund
Manager Change	Equals 1 if a new manager has been announced for the fund, and 0 otherwise
Degree	Equals 1 if the manager holds a PhD, 0 if a master's degree or MBA, and −1 if a bachelor's degree
Gender	Equals 1 if male, 0 if female
Panel D: Firm Characteristics	
Firm TNA	ln (1+total net asset of the issuing firm)
Firm Fund Number	Total number of funds managed by the issuing firm.
Firm Age	Number of years since the establishment of the issuing firm
Panel E: Group Variables	
Institutional Investors Ratio	The fund's institutional ownership ratio pre-reform period (one-year window). (High p50–p100, Low p0–p50)
Fund Performance	The fund's pre-reform performance, measured by return and Jensen's alpha, respectively. Performance is evaluated over a half-year rolling window using weekly data. (High p80–p100, Mid p20–p80, Low p0–p20)

Issuing Firm Size	The fund's issuing firm, measured at the end of 2023Q2 (pre-reform benchmark quarter). Funds affiliated with firms in the top half of the size distribution (p50–p100) are classified as large-firm funds, and those in the bottom half (p0–p50) as small-firm funds.