

Project Update

Throughout this year, I have been working with David and Pedro on the MF subadvisor project, we reached some interesting results (listed in the Output file), though we run into some trouble with the subadvisor fee data, which has been manually collected by Julia from EDGAR reports. At the moment, we are on the one hand sorting out the fee data, and on the other hand wrapping up our results on other dimensions.

I am also working on my solo project on ETF inception with the help from my supervisors. I am trying to combine different perspectives in investigating the topic, some preliminary findings are listed in the output file.

I am aiming at completing draft papers for both projects in the coming year. Once a draft is ready, I would discuss with my supervisors about the plan to disseminate the paper.

Outputs

Project 1 with David, Pedro and Julia

Title:

Competition in Sub-advised Mutual Funds

Main Findings to date:

1. The Mutual Fund advisors do not seem to possess skills in picking sub-advisors when making hiring/firing decisions, in that the past performance of the subadvisor cannot persist post-event.
2. Probit regressions show that funds experiencing continuous poor performance are more inclined to make turnover decisions on sub-advisors. Subadvisors with outstanding past performance are more likely to be hired, while underperforming subs are more likely to be fired.
3. Following turnovers, fund performance improves slightly at the beginning, but the abnormal performance soon becomes insignificant after a year.
4. By constructing variables based on their factor loadings, we find that the fund advisors, when making the hiring/firing decisions, do not pay much attention into whether the subadvisor is closely following the investment mandate of the fund, so long as they are generating reasonable returns.

Project 2

Intended Title:

What drives the inception of ETFs and how do active funds react correspondingly?

Preliminary Findings:

1. Asset classes which experience larger capital inflows see higher number of inceptions of both ETFs and MFs.
2. Both fund flows and number of inceptions of ETFs and MFs are auto-correlated.
3. Fund flows are not only return-chasing, but also favour low cost funds.
4. The pattern of ETF fund flows seem to follow those of MFs in terms of picking the asset classes, even controlling for the performance and cost structure for both.
5. MFs do not seem to reduce their cost in response to competition coming from ETFs in the same category.