

Do Busy Managers Perform Better? Evidence from Mutual Funds



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Motivation

- Busy Board with Busy Directors in Corporate Governance
 - Busy directors might have weak monitoring function
- Busy Fund with Busy Managers in Mutual Funds
 - Does busy manager adversely affect fund performance?

Definitions:

- Busy manager: a manager in charge of three or more funds simultaneously
- Busy fund: a fund where 50% or more managers are busy

Literature Review - Busy Board

- Ferris, Jagannathan, and Pritchard (2003)
 - No evidence that multiple directorships harm subsequent firm performance

- Perry and Peyer (2005)
 - The sending firm benefits or suffers from additional directorship depending on whether agency costs are low or high

- Fich and Shivdasani (2006)
 - Busy boards → lower M/B, weaker accounting performance

Literature Review – Multi-fund Managers

- Nohel, Wang, and Zheng (2010)
 - Side-by-side mutual fund managers outperform peer funds

- Agarwal and Ma (2011 FMA)
 - Multitasking harms incumbent funds but benefits acquired funds

- Chen, Lai, and Tsai (2011 FMA)
 - Performance difference between new and old funds is larger if under the same management

- Yadav (2010)
 - Multiple-fund managers perform better than single-fund managers

Objective

- Performance difference between busy (≥ 3) and nonbusy managers/funds
- Reputation hypothesis: multitasking is good
- Busyness hypothesis: multitasking is bad

Data

- Source: MorningStar Principia for Mutual Fund (quarterly CDs)
 - Massa, Reuter, and Zitzewitz (2010): For most of the funds for which Morningstar lists four or more manager names, CRSP simply reports "Team Managed".

- 1st qrt of 2000 – 1st qrt of 2007

- Domestic equity funds with objectives:
 - Aggressive growth
 - Growth
 - Growth and Income
 - Equity Income
 - Small Company

- Data are extracted CD-by-CD to avoid survivorship bias:
 - Total net asset, fund age, portfolio turnover, expense ratio, total loads, monthly net return, manager tenure
 - Keep the primary share class with the largest total net asset
 - Exclude index funds

Definitions of Busy Manager/Fund

Two Measures of Manager Busyness:

- Managerships: The number of funds operated by a manager
- BusyManager Dummy: equal 1 if in charge of ≥ 3 funds simultaneously

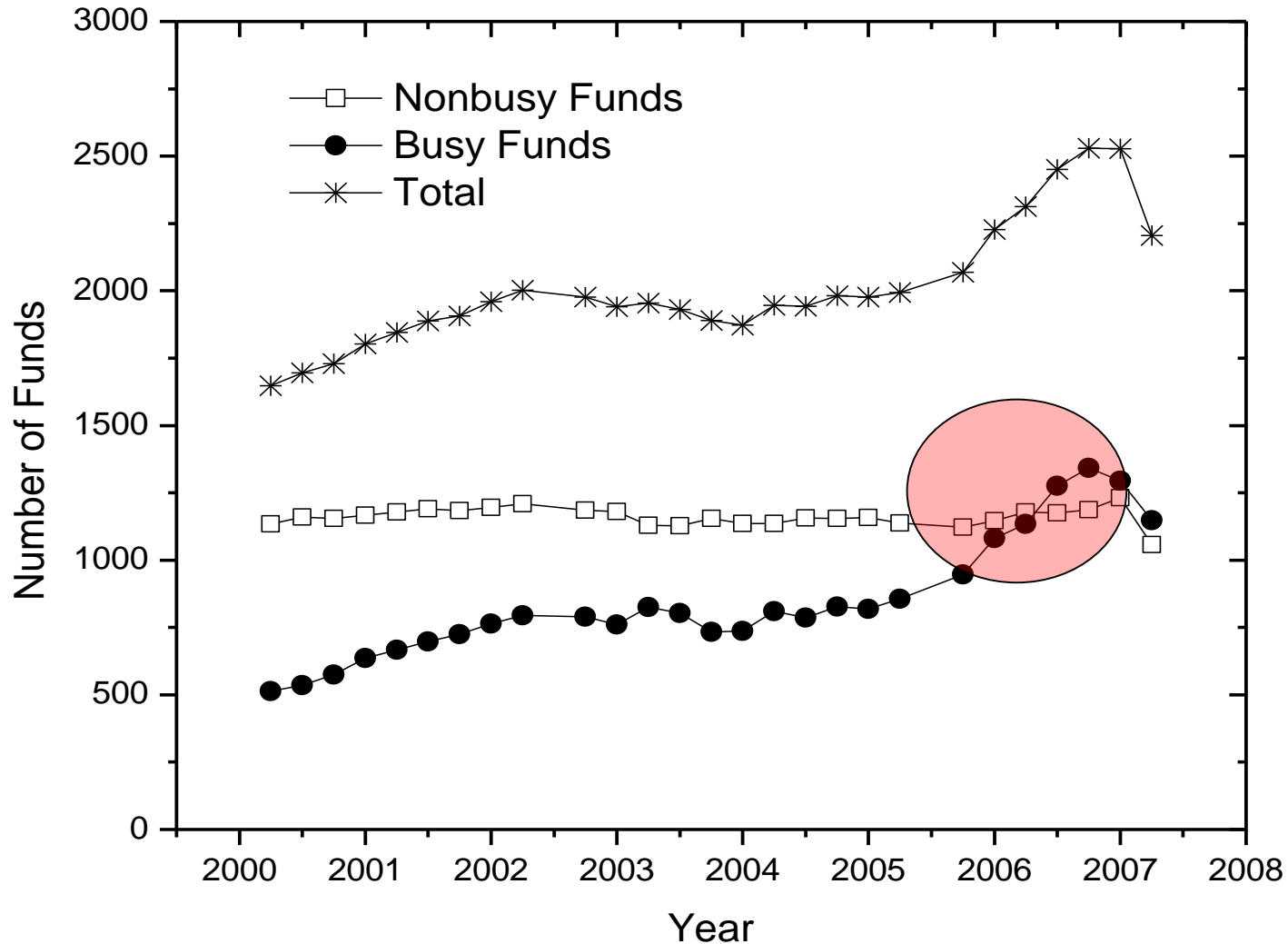
Three Measures of Fund Busyness:

- Average Managerships: average number of managerships in a fund
- BusyFund Dummy: equal 1 if $\geq 50\%$ of managers are busy
- BusyManager%: fraction of busy managers in a fund

Number of Busy Managers by Year

Managership	2000	2001	2002	2003	2004	2005	2006	2007
Total Mgr #	1,986	2,079	2,045	2,052	2,054	2,315	3,085	2,919
Total BusyMgr #	288	357	343	362	356	457	749	759
BusyMgr%	15%	17%	17%	18%	17%	20%	24%	26%
Avg. Mgrships/Mgr	1.63	1.72	1.70	1.76	1.78	1.87	2.05	2.11

Number of Busy/Nonbusy Funds by Year



Comparison of Fund Characteristics between Busy and Nonbusy Managers

Mgrship	No. of Mgrs	4-factor alpha (%)	Tenure	TNA(\$MM)	Turnover	Fund Age	Expratio (%)	Total Load (%)
1	1350	-0.05	4.79	1,114	0.89	10.36	1.31	1.60
2	475	0.09	4.50	1,515	0.93	11.45	1.27	1.82
3	214	-0.33	4.64	1,722	0.96	11.29	1.28	2.08
4	95	-0.32	4.35	1,224	0.99	10.18	1.26	2.16
5	45	-0.35	3.99	748	0.91	8.59	1.30	2.13
>=6	72	-0.27	3.81	836	1.15	8.80	1.33	1.92
Nonbusy Manager		-0.01	4.71	1219	0.90	10.64	1.30	1.66
Busy Manager		-0.32	4.36	1359	0.99	10.33	1.28	2.07
Difference		0.31***	0.35***	-140***	-0.09***	0.31***	0.02**	-0.42***
Nonbusy Fund		-0.06	4.85	927	0.96	10.78	1.35	1.72
Busy Fund		-0.38	4.55	920	1.01	10.24	1.31	2.04
Difference		0.33***	0.30***	7	-0.05***	0.54***	0.04***	-0.32***

Busy Manager Effect on Fund Performance

Dependent variable is 2-year future 4-factor alpha

Mgrships	-0.030 (-0.60)				
Busymgr		-0.40** (-2.38)			
Avg Mgrships			0.0096 (0.23)		
Busymgr				-0.32* (-1.92)	
Busymgr%					-0.38** (-2.02)
FundAge	-0.0026 (-0.54)	-0.0033 (-0.68)	-0.0087 (-1.09)	-0.0095 (-1.19)	-0.0095 (-1.19)
Tenure	0.070*** (4.55)	0.069*** (4.56)	0.042** (2.22)	0.042** (2.22)	0.043** (2.24)
LogAsset	-0.23*** (-4.38)	-0.21*** (-4.14)	-0.20*** (-3.49)	-0.19*** (-3.35)	-0.19*** (-3.35)
Turnover	-0.0076*** (-4.78)	-0.0075*** (-4.77)	-0.0084*** (-5.32)	-0.0083*** (-5.30)	-0.0083*** (-5.29)
ExpRatio	-1.13*** (-3.05)	-1.12*** (-3.04)	-1.14*** (-8.87)	-1.14*** (-8.88)	-1.14*** (-8.89)
Constant	1.19* (1.78)	1.09 (1.61)	4.00*** (3.75)	3.96*** (3.72)	3.97*** (3.73)
Observations	31,306	31,306	25,485	25,485	25,485
Adjusted R-squared	11.5%	11.6%	11.0%	11.1%	11.1%

Causality Analysis

Past change in mgrships from t-1 to t	Freq	Future change in alpha from t to t+8	Fraction of future rising alpha from t to t+8
≤ -3	216	-0.506	45.5%
-2	391	-1.164	45.5%
-1	2332	-2.003	41.5%
0	47305	-3.404	37.6%
1	3247	-3.576	38.3%
2	552	-3.583	30.8%
≥ 3	318	-2.365	50.0%

managership increases → performance deteriorates more

Past Change in alpha	Freq	Future Change in Managerships From t to t+8	Future Change in Fraction of Busy Managers From t to t+8
Up from t-8 to t	9716	0.253	7.7%
Down from t-8 to t	15138	0.161	2.7%

Performance improves → more likely to take more managerships

Causality Analysis

$$[Mgrship(t) - Mgrship(t-4)] \uparrow \Rightarrow [\alpha(t+4) - \alpha(t)] \downarrow$$

$$[\alpha(t) - \alpha(t-4)] \uparrow \Rightarrow [Mgrship(t+4) - Mgrship(t)] \uparrow$$

	Lead change of alpha	Lead change of Mgrships	Lead change of alpha	Lead change of Busy Mgr
	Test 1	Test 2	Test 1	Test 2
4-qrt lag change of Mgrships	-0.872** [0.366]			
4-qrt lag change of Busy Mgr			-3.412*** [1.095]	
4-qrt lag change of Alpha		0.005* [0.003]		0.002* [0.001]
tenure	0.055 [0.070]	-0.0001 [0.004]	0.051 [0.070]	0.001 [0.001]
logasset	-1.467*** [0.176]	0.020** [0.009]	-1.463*** [0.171]	0.004 [0.003]
turnover	-0.046*** [0.006]	0 [0.000]	-0.046*** [0.006]	0 [0.000]
expratio	-2.922*** [0.530]	0.001 [0.019]	-2.993*** [0.533]	0 [0.007]
fundage	0.100*** [0.022]	-0.004** [0.002]	0.100*** [0.022]	-0.002*** [0.001]
Constant	9.809*** [1.395]	-0.003 [0.068]	9.916*** [1.383]	0.01 [0.025]
Observations	1287	1287	1287	1287
R-squared	18%	1%	19%	1%

Summary

- The distribution of fund managerships becomes wider over 2000-2007
- Multiple managerships may not have negative impact on future fund performance, but ≥ 3 managerships (busy manager) harm future fund performance
- Support both
 - Reputation hypothesis: performance \uparrow \rightarrow managerships \uparrow
 - Busyness hypothesis: managerships \uparrow \rightarrow performance \downarrow