

Universität Mannheim  
Lehrstuhl für ABWL und Corporate Governance  
68131 Mannheim

**Besucheradresse:**  
L9, 1-2  
68161 Mannheim  
Telefon 0621/181-1595

## iMaster Theses HWS 2021: Topics

---

- TOPIC NR1: Mutual fund managerial ownership and capital gains taxes**  
Advisor: Chia-Yi Yen
- TOPIC NR2: Firms' Environmental Profiles and Financing Conditions**  
Advisor: Larissa Ginzinger
- TOPIC NR3: Climatic Disaster Risk and Mutual Fund Investments**  
Advisor: Larissa Ginzinger
- TOPIC NR4: The Impact of Social Norms and Preferences on Financial Markets**  
Advisor: Larissa Ginzinger



**TOPIC NR1: Mutual fund managerial ownership and capital gains taxes**

---

**Advisor:** Chia-Yi Yen

Because of agency problems between fund managers and investors, mutual fund managers are often asked to own a number of shares in the funds they manage, known as “skin-in-the-game.” Empirical studies have shown that this design helps realign the interests of managers and investors. For example, Ma and Tang (2018) show that managerial ownership is affiliated with less agency-induced risk-taking in portfolio holdings. However, when taking into account capital gains taxes, the existence of such a tax may distort fund managers’ decisions against shareholders’ best interests. Though this issue is relatively less discussed in the mutual fund literature, a number of recent papers discuss how managerial taxes distort the decisions of CEOs, which can be interpreted analogously for the behavior of fund managers.

Inspired by the literature on CEO incentives, this thesis shall investigate if similar effects of capital gains taxes on managerial behavior exist for fund managers. There are two potential hypotheses regarding fund managers’ decision on risk-taking. First, fund managers may take less risk in the presence of capital gains taxes due to a lock-in effect. Yost (2017) predicts that CEOs with significant ownership are reluctant to sell their shares in order to circumvent the tax liabilities resulting from capital gains; as a result, they tend to make less risky decisions and hence limit the personal risk of their ownership. Second, fund managers may take more risk in the presence of a capital gains tax due to a substitution effect. Armstrong et al. (2018) argue that, with the existence of taxation, the government is basically sharing risk with firms. That is, when firms make profits, the government takes part of the profits as taxes; when firms lose, they can offset their tax liability later. As a result, CEOs do not bear that much risk after-tax, and they may turn to more risky projects in order to achieve the desired level of risk-taking. In addition to risk-taking decisions, tax distortion effects on other decisions of fund managers belong to the scope of this topic, such as fund performance and turnover. For example, Evans (2008) finds that fund performance is increasing in the level of managerial ownership. Whether tax distortion changes this finding is also a sub-issue to be investigated.

In this thesis, the student is expected to conduct a literature review on the tax distortion effect on mutual fund managers’ decisions and further examine how unrealized tax burdens on fund managers influence fund-level activities, such as riskiness, performance, turnover, and flows. The student is expected to apply the empirical designs of Yost (2018) to the mutual fund settings.

**Requirements:**

The empirical work requires the use of databases on mutual funds, such as the CRSP Mutual Fund database and the Thomson Reuters Ownership database. These data are accessible at the University of Mannheim or will be provided by the supervisor. In addition, the student has to manually collect data from the SEC EDGAR website. We recommend that the candidate has at least basic knowledge of a statistical software program (e.g., Stata, R, or Python) and econometrics.

**Introductory Literature:**

- Armstrong, C. S., Glaeser, S., Huang, S., & Taylor, D. J. (2019). The economics of managerial taxes and corporate risk-taking. *The Accounting Review*, 94(1), 1-24.
- Evans, A. L. (2008). Portfolio manager ownership and mutual fund performance. *Financial Management*, 37(3), 513-534.
- Ma, L., & Tang, Y. (2019). Portfolio manager ownership and mutual fund risk taking. *Management Science*, 65(12), 5518-5534.
- Yost, B. P. (2018). Locked-in: The effect of CEOs' capital gains taxes on corporate risk-taking. *The Accounting Review*, 93(5), 325-358.

**TOPIC NR2: Firms' Environmental Profiles and Financing Conditions**

---

**Advisor:** Larissa Ginzinger

Financial markets play an important role in the transition towards a carbon-neutral economy. Increasingly, institutional investors like professional asset managers or pension funds incorporate environmental criteria when making investment decisions. Moreover, environmental awareness among retail investors is on the rise as well. Prior research shows that changes in investors' preferences can impact expected returns of firms. For example, one might expect to see a decrease in the cost of equity for environmentally friendly firms compared to other firms, if investors place more weight on sustainability. Using ESG scores from MSCI KLD, Chava (2014) provides evidence that higher environmental performance scores are associated with lower cost of equity and debt. Complementary evidence by Delis et al. (2019) shows that the cost of debt has increased for firms having higher fossil fuel reserves after the Paris Agreement of 2015. A recent strand of literature documents a lack of standardization of ESG scores across different data providers (Berg et. al (2020), Gibson et. al (2020)). Therefore, the results of Chava (2014) might not be robust to using alternative ESG data.

In this thesis, the student first broadly replicates the findings of Chava (2014). Second, the student explores whether the results are robust to using E-scores from Refinitiv Asset4. Third, the student should additionally analyze whether the relation found for E-Scores also holds for S-Scores. Fourth, the student should examine the relationship between carbon emissions and financing cost. In this part of the thesis, the student might also evaluate the impact of different types of emissions. Fifth, one might also examine if the Paris Agreement had an impact on the cost of capital.

Requirements:

The empirical work requires the use of large databases, e.g., CRSP/Compustat. ESG scores are available from EIKON and MSCI KLD. Data on carbon emissions will be provided by the supervisor and additional data might be downloaded from Bloomberg. We recommend that the candidate has at least basic knowledge of a statistical software program (e.g., Stata, R, or Python) and econometrics.

**Introductory Literature:**

- Berg, F., Koelbel, J. F., & Rigobon, R. (2019). Aggregate confusion: The divergence of ESG ratings. Working Paper available at SSRN.
- Chava, S. (2014). Environmental externalities and cost of capital. *Management Science*, 60(9), 2223-2247.
- Delis, M. D., de Greiff, K., & Ongena, S. (2019). Being stranded with fossil fuel reserves? Climate policy risk and the pricing of bank loans. Working Paper available at SSRN.
- Gibson, R., Krueger, P., & Schmidt, P. S. (2019). ESG rating disagreement and stock returns. Working Paper available at SSRN.
- Krueger, P., Sautner, Z., & Starks, L. T. (2020). The importance of climate risks for institutional investors. *The Review of Financial Studies*, 33(3), 1067-1111.

**TOPIC NR3: Climatic Disaster Risk and Mutual Fund Investments**

---

**Advisor:** Larissa Ginzinger

Climate change is playing an increasingly important role in shaping economic activities. It impacts firms and investors at the same time. Usually, a company's risk exposure to climate change is associated with its greenhouse gas emissions because of, e.g., regulatory or technological risks. Another dimension of climate change risk is physical risk, which captures the vulnerability of corporations' production processes to disastrous events amplified by climate change. In a recent contribution, Alok et al. (2020) examine whether professional money managers overreact to large climatic disasters. They find that fund managers within a disaster region underweight disaster zone stocks to a much greater degree than distant managers. Moreover, this aversion of disaster zone stocks is related to a salience bias that decreases over time and in the distance from the disaster, rather than to a local informational advantage.

The goal of this thesis is two-fold. Firstly, the student should analyze the portfolio responses of fund managers to natural disasters. This part of the thesis essentially replicates the first set of results of Alok et al. (2020). In this context, the student should also investigate alternative explanations (e.g., the salience vs. information hypothesis) for the findings in the replication part. Secondly, the student should extend the analysis of Alok et al. (2020) by studying how portfolio-level ESG performance of funds in disaster regions changes relative to benchmark funds not affected by a natural disaster.

Requirements:

The empirical work requires the use of databases on mutual funds, such as the CRSP Mutual Fund database and the Thomson Reuters Mutual Fund Holdings database. ESG scores are available from EIKON and MSCI KLD. Disaster data from SHELDUS will be provided by the supervisor. We recommend that the candidate has at least basic knowledge of a statistical software program (e.g., Stata, R, or Python) and econometrics.

**Introductory Literature:**

- Alok, S., Kumar, N., & Wermers, R. (2020). Do fund managers misestimate climatic disaster risk. *The Review of Financial Studies*, 33(3), 1146-1183.
- Dessaint, O., & Matray, A. (2017). Do managers overreact to salient risks? Evidence from hurricane strikes. *Journal of Financial Economics*, 126(1), 97-121.
- Engle, R. F., Giglio, S., Kelly, B., Lee, H., & Stroebel, J. (2020). Hedging climate change news. *The Review of Financial Studies*, 33(3), 1184-1216.
- Giglio, S., Kelly, B., & Stroebel, J. (2021). Climate finance. National Bureau of Economic Research.

**TOPIC NR4: The Impact of Social Norms and Preferences on Financial Markets**

---

**Advisor:** Larissa Ginzinger

In recent years, companies have been increasingly required to not only focus on shareholder value but also on the impact of their operations on employees, the environment, or the society in general. Put differently, increased pressure from policymakers and the public causes firms to also incorporate environmental, social, and corporate governance (ESG) related outcomes into their decision-making. This shift in corporate decision making induced by social norms and preferences might translate into financial market effects. The Forum for Sustainable and Responsible Investment estimates that in 2020, about \$35.3 trillion dollars or roughly 36% of total assets under management underwent sustainability screens, which suggests a potentially sizeable effect of socially responsible investing on financial market outcomes. In an early contribution, Hong and Kacperczyk (2009) show that sin stocks, i.e., stocks from alcohol, tobacco, and gaming industries, display significantly lower institutional ownership than comparable non-sin stocks. At the same time, these sin stocks seem to have earned larger excess returns.

In this thesis, the student first broadly replicates the findings of Hong and Kacperczyk (2009). Do institutional investors shy away from sin stocks? Are there return differences between sin stocks and otherwise comparable non-sin stocks? Second, the student explores whether the results are robust to including the most recent data in the sample. Third, the student should extend the analysis of Hong and Kacperczyk (2009) with respect to the (i) environmental performance and (ii) social performance of firms. In this part of the thesis, the student might study whether institutional investors invest more in firms with greater environmental or social reputation as proxied by ESG scores. Fourth, one might also examine the effect of carbon emissions on institutional investment.

Requirements:

The empirical work requires the use of large databases, e.g., CRSP/Compustat, Thomson Institutional (13f) Holdings, and IBES. ESG scores are available from EIKON and MSCI KLD. Data on carbon emissions will be provided by the supervisor. We recommend that the candidate has at least basic knowledge of a statistical software program (e.g., Stata, R, or Python) and econometrics.

**Introductory Literature:**

- Bolton, P., & Kacperczyk, M. (2021). Do investors care about carbon risk? *Journal of Financial Economics*.
- Edmans, A. (2011). Does the stock market fully value intangibles? Employee satisfaction and equity prices. *Journal of Financial Economics*, 101(3), 621-640.
- El Ghouli, S., Guedhami, O., Kwok, C. C., & Mishra, D. R. (2011). Does corporate social responsibility affect the cost of capital? *Journal of Banking & Finance*, 35(9), 2388-2406.
- Hong, H., & Kacperczyk, M. (2009). The price of sin: The effects of social norms on markets. *Journal of financial economics*, 93(1), 15-36.
- Renneboog, L., Ter Horst, J., & Zhang, C. (2008). Socially responsible investments: Institutional aspects, performance, and investor behavior. *Journal of Banking & Finance*, 32(9), 1723-1742.