

SYLLABUS: DOCTORAL COURSE “FIN 923 - MUTUAL FUND AND HEDGE FUND RESEARCH”

Title: “Mutual Fund and Hedge Fund Research”

Level: Ph.D. in Finance

Instructors: Prof. Dr. Stefan Ruenzi (University of Mannheim) and Prof. Dr. Florian Weigert (University of Neuchâtel)

Contact Language: English

Dates and Location: February 19-23, 2024 (Course Period), May 13/16, 2024 (Final Presentations), Exact timing will be announced in due time. There will be no overlap with other compulsory finance PhD courses. Venue: GESS Building, Room TBA.

Kickoff-Meeting: February 5, 2024, Virtual, Time: TBA

Exam: Presentation(s) and Research Project

Credits: 6 ECTS (Total workload of 6 * 28 hours = 168 hours)

Course Summary:

This is a doctoral level course introducing students to current theoretical and empirical research on delegated portfolio management, in particular on mutual funds and hedge funds. It covers classic questions like the role of mutual funds/hedge funds in equilibrium, how mutual funds and hedge funds perform, what matters to investors, how managers behave and respond to incentives, and what policies fund families follow. It also covers important and recent industry trends like the active vs. passive investing debate and ESG investing with funds.

Detailed Content:

Part 1: Mutual Funds

- Chapter 1:** Introduction: Importance of and reasons for delegated portfolio management
- Importance and structure of the industry
 - Regulatory framework & governance
 - NAV pricing of funds
 - Stylized facts about funds
 - Funds in a rational equilibrium

Literature: *ICI Factbook (most recent edition)*, *Berk & Green (2004): Mutual Fund Flows and Performance in Rational Markets, Journal of Political Economy 112, 1269-1295*, *Berk & van Binsbergen (2017): Mutual Funds in Equilibrium, Annual Review of Financial Economics, Vol 9, p. 147-167.*

- Chapter 2:** Mutual Fund Performance Performance measures (internal and external)
- Empirical evidence on performance and performance persistence
 - Empirical determinants of performance
 - Performance prediction

Literature: Kacperczyk, Sialm & Zheng (2008): *Unobserved Performance of Mutual Funds*, 21(6), 2379-2416. Chen/Hong/Huang/Kubik (2006): *Does Fund Size Erode Mutual Fund Performance?* *American Economic Review* 94, 1276-1300. Barras, L., O. Scaillet, and R. Wermers, 2010, *False Discoveries in Mutual Fund Performance: Measuring Luck in Estimated Alphas*, *Journal of Finance* 65, 179-216. Harvey and Liu (2018): *Detecting Repeatable Performance*, *Review of Financial Studies* 31(7), 2499-2552. DeMiguel, Gil-Bazo, Nogales, Santos (2023): *Machine learning and fund characteristics help to select mutual funds with positive alpha*, *Journal of Financial Economics* 150, 103737.

- Chapter 3:** Investor Behavior
- Classic studies on the performance-flow relationship
 - Reaction to fund and manager characteristics
 - Revealed preferences approach

Literature: Sirri and Tufano (1998): *Costly Search and Mutual Fund Flows*, *Journal of Finance* Vol. 53(5), 1589-1622. Niessen-Ruenzi and Ruenzi (2019): *Sex Matters – Gender Bias in the Mutual Fund Industry*, *Management Science*, Vol. 65(7), 3001-3025. Odean, Barber & Huang (2016), *Which Risk Factors Matter to Investors? Evidence from Mutual Fund Flows*, *Review of Financial Studies*.

- Chapter 4:** Manager Behavior
- Incentives of mutual fund managers due to investor behavior and compensation contracts
 - Risk taking behavior of fund managers
 - Window dressing
 - Behavioral biases of mutual fund managers
 - Team vs individual managers

Literature: Kempf, Ruenzi & Thiele (2009): *Employment Risk, compensation incentives and managerial risk taking*. *Journal of Financial Economics* 92, 92-108. Du, Niessen-Ruenzi, & Odean (2023): *Stock Repurchasing Bias of Mutual Funds*, forthcoming in *Review of Finance*.

- Chapter 5:** Family Strategies, Impact of MFs on Markets & Recent Trends
- Product and pricing strategies
 - Cross-fund subsidization
 - Marketing
 - Hiring, firing and promotions of fund managers
 - Impact of funds on stock returns & liquidity
 - Passive Investing
 - ESG Investing

Literature: Anton and Polk (2014): *Connected Stocks*, *Journal of Finance* 69, 1099-1127, Koch, Ruenzi, and Starks (2016): *Commonality in Liquidity – A Demand-Side Explanation*, *Review of Financial Studies* 29, 1943-1974, Roussanov, Ruan and Wei (2021): *Marketing Mutual Funds*, *Review of Financial Studies* 34(6), 3045-3094. Eisele, Nefedova, Parise & Peijnenburg (2020) *Trading out of sight: An analysis of cross-trading in mutual fund families*, *Journal of Financial Economics* 135 (2):359-378.

Part 2: Hedge Funds

General literature: Agarwal, Mullally & Naik (2015): The Economics and Finance of Hedge Funds: A Review of the Academic Literature, Foundations and Trends in Finance 10(1), 1-111.

Chapter 6: Introduction: Hedge Funds

- Return-generating process
- Manager compensation
- Fund illiquidity
- Tools applied by hedge funds: Leverage, short-selling, and derivatives
- Hedge fund strategies

Literature: Lhabitant (2009): Hedge funds: Quantitative insights, Chapter 1. Ang, Gorovyy & van Inwegen (2011): Hedge fund leverage, Journal of Financial Economics 102, 102-126. Jones, Reed & Waller (2016): Revealing shorts: An examination of large short position disclosures, Review of Financial Studies 29(12). Aragon & Martin (2012): A unique view of hedge fund derivatives usage: Safeguard or speculation? Journal of Financial Economics 105, 436-456.

Chapter 7: Risk and Returns of Hedge Funds

- Hedge fund databases and biases
- Empirical hedge fund performance
- Hedge fund asset pricing models
- SEC portfolio filings

Literature: Aiken, Clifford & Ellis (2013): Out of the dark: Hedge fund reporting biases and commercial databases, Review of Financial Studies 26, 208-243. Yang, Havranek, Irsova & Noval (2023): Is research on hedge fund performance published selectively? A quantitative survey, forthcoming in the Journal of Economic Surveys. Griffin and Xue (2009): How smart are the smart guys? A unique view from hedge fund stock holdings, Review of Financial Studies 22, 2332-2370.

Chapter 8: Hedge fund characteristics and performance

- Compensation
- Managerial flexibility
- Fund size and investor flows
- Manager characteristics
- Fund distinctiveness and fund performance

Literature: Agarwal, Daniel & Naik (2009): Role of managerial incentives and discretion in hedge fund performance, Journal of Finance 64, 2221-2256. Brown et al. (2018): Sensation seeking and hedge funds, Journal of Finance 73, 2871-2914. Agarwal, Ruenzi & Weigert (2023): Unobserved Performance of Hedge Funds, forthcoming in the Journal of Finance.

Chapter 9: Hedge Fund Risk-Taking and Risk Management

- Incentive contracts and risk taking
- Operational risk, fraud, and agency problems
- Liquidity risk
- Tail risk
- Risk management

Literature: Panageas and Westerfield (2009): High-water marks: High risk appetities? Convex compensation, long horizons, and portfolio choice, Journal of Finance 64, 1-36. Bollen and Pool (2012): Suspicious patterns in hedge fund returns and the risk of fraud, Review of Financial Studies 35, 2674-2702. Agarwal, Ruenzi & Weigert (2017): Tail risk in hedge funds: A unique view from portfolio holdings, Journal of Financial Economics, 125, 610-636.

Chapter 10: Role of Hedge Funds in the Financial System

- The propagation of systemic risk
- Impact on asset prices
- Suppliers of liquidity
- Hedge fund activism

Literature: Boyson, Stahel & Stulz (2010): Hedge fund contagion and liquidity shocks, Journal of Finance 65, 1789-1816. Ben-David et al. (2013): Do hedge funds manipulate stock prices? Journal of Finance 68, 2383-2434.

Teaching Methods:

In each class, the instructors will give an introduction and overview of the topic covered in the specific session. Students will then present assigned papers (1-2), including a critical discussion of the contribution and possibly ideas for future research. On the last class day, students will present the results of their own empirical studies.

Evaluation:

Active course participation is mandatory. The grade each student receives is calculated as the weighted average of two components: 1. Each student has to present and critically discuss one or two assigned papers (counting for 50% of the final grade). 2. Each student has to present a research project (counting for 50% of the final grade).

Submission of the research project in written form is due on Sunday, May 12th, midnight. The research project proposal should not be longer than 10 pages and include a summary, a literature review, and a description where and how to collect the necessary data (in case it is an empirical project). Empirical results for the project are desired, but not necessarily expected.

We reserve the right to change details to of this syllabus.

Registration Deadline: January 31st, 2024!