

Conference Agenda

13th Annual Hedge Fund Research Conference

Date: Thursday, 20/Jan/2022

8:30am - 9:00am Welcome and Registration

9:00am - 10:30am Session 1

Session Chair: **Carole Gresse**, Université Paris Dauphine - PSL
<https://us02web.zoom.us/j/85799461072?pwd=Q1FVRHAWc2wrMXFwei9xcjQvb2Z4dz09>

The Role of Leveraged ETFs and Option Market Imbalances on End-of-Day Price Dynamics

Andrea Barbon¹, Heiner Beckmeyer², Andrea Buraschi³, Mathis Mörke¹

¹University of St.Gallen; ²University of Muenster; ³Imperial College

Discussant: **Fabrice Riva** (Université Paris Dauphine - PSL)

Leveraged ETFs and market makers who are active in option markets must adjust imbalances arising from market movements. Establishing delta-neutrality may cause either return momentum or reversal depending on the sign and size of the imbalance vis-a-vis market prevailing liquidity. We find that a large and negative (positive) aggregated gamma imbalance, relative to the average dollar volume, gives rise to an economically and statistically significant end-of-day momentum (reversal). We compare this channel to the rebalancing of leveraged ETFs and find that the effect generated by leveraged ETFs is economically larger. Consistent with the notion of temporary price pressure, the documented effects quickly revert at the next day's open. Information-based explanations are unlikely to cause the results, suggesting a non-informational channel through which leveraged ETFs and option markets affect underlying stocks towards the market close.

[Barbon-The Role of Leveraged ETFs and Option Market Imbalances-167MörkeMathisMörke.pdf](#)

Geographic Proximity in Short Selling

Xiaolin Huo¹, Xin Liu¹, Vesa Pursiainen²

¹Renmin University of China; ²University of St. Gallen, Switzerland

Discussant: **Adam Reed** (University of North Carolina at Chapel Hill)

Geographic proximity is associated with significantly higher returns from short selling within London and the UK. Short trades by institutions near the target headquarters are followed by larger negative abnormal returns. Proximity matters more for stocks that are smaller, more volatile, and less actively covered by sellside analysts, and less for large trades and trades following more proximate institutions' trades. Short trades are correlated geographically, with proximate institutions more likely to short the same stocks. Geographically closer short trades predict more negative earnings. Covering of short positions by more proximate institutions is followed by more positive abnormal stock returns.

[Huo-Geographic Proximity in Short Selling-169PursiainenVesaPursiainen.pdf](#)

10:30am - 11:00am Break

11:00am - 12:30pm Session 2

Session Chair: **Marie BRIERE**, Amundi
<https://us02web.zoom.us/j/85799461072?pwd=Q1FVRHAWc2wrMXFwei9xcjQvb2Z4dz09>

Eponymous Hedge Funds

Vikas Agarwal¹, Yakup Eser Arisoy², Tri Trinh²

¹Georgia State University; ²NEOMA Business School, France

Discussant: **Daniel Schmidt** (HEC Paris)

Using a relatively common phenomenon of eponymy in the hedge fund industry where funds are named after their founder-managers, we examine if eponymy is associated with skilled managers signaling their ability. Our results suggest that eponymous fund managers are neither necessarily skilled nor outperform their non-eponymous peers. In contrast, eponymous funds take higher risk which lead them to have lower Sharpe ratios and information ratios, hence worse risk-adjusted performance. Moreover, we do not find any evidence of an increase in reputational costs and benefits associated with eponymy. Fund investors neither reward nor punish eponymous managers for good and bad performance, respectively, relative to their non-eponymous peers. Overall, these results fail to support a signaling-based explanation of eponymy and highlight the need for exploring other rationales behind the eponymy decision of hedge fund managers.

[Agarwal-Eponymous Hedge Funds-112TrinhTriARISOY.pdf](#)

Born After The Volcker Rule: Regulatory Change, Managerial Remuneration And Hedge Fund Performance

Michael Bowe, Olga Kolokolova, Lijie Yu

University of Manchester, United Kingdom

Discussant: **Florian Weigert** (University of Neuchâtel)

This paper finds that remunerative benefits accrue to managers of new hedge funds launched after the implementation of the Volcker Rule (section 610 of the 2010 Dodd-Frank Act) if their previous employer is a systemically important US bank. We attribute this phenomenon to changes in how investors perceive the distribution of managerial ability in the pool of new fund managers with prior banking connection after the Volcker Rule's implementation. Before the Volcker Rule, funds launched by ex-bankers charge higher incentive fees and are more likely to use a high-water mark, but receive less flows as compared to other new hedge funds established during the same period. After the Rule, ex-bankers' funds switch to a fee structure with higher management fees and receive more flows. However, they are indistinguishable from other new hedge funds in terms of performance, risk, and liquidation probability, both before and after the Volcker Rule.

[Bowe-Born After The Volcker Rule-126KolokolovaOlgaKolokolova.pdf](#)

12:30pm - 2:30pm Lunch Break

2:30pm - 4:00pm Session 3

Session Chair: **Sabrina Buti**, Université Paris Dauphine-PSL

<https://us02web.zoom.us/j/85799461072?pwd=Q1FVRHAwc2wrMXFwei9xcjQvb2Z4dz09>

How Does the Speed of Capital Flows Affect Factor Momentum, Reversal and Volatility?

Xi Dong¹, Namho Kang², Joel Peress³

¹Baruch College / CUNY, United States of America; ²Bentley University; ³INSEAD

Discussant: **Paul Karehnke** (ESCP Business School)

We document that hedge-fund and mutual-fund flows drive much of anomaly-return dynamics by, respectively, correcting and amplifying anomalies, and doing so slowly. Indeed, their contributions to the autocorrelation and volatility of anomaly returns reach 57% over horizons longer than one year, vs. a few percent over shorter horizons. Thus, flows cause long-horizon factor momentum and stock excess volatility, not transient fluctuations. This effect is more pronounced for hedge funds, helmed by fund managers rather than fund investors, and linked to frictions. We address endogeneity concerns and propose a model highlighting the horizon-dependent effects of capital on anomaly-return dynamics.

[Dong-How Does the Speed of Capital Flows Affect Factor Momentum, Reversal and Volatility-154DongXiDong.pdf](#)

Capital Allocation and the Market for Mutual Funds: Inspecting the Mechanism

Jules van Binsbergen², Jeong Ho {John} Kim¹, Soohun Kim³

¹Emory University, United States of America; ²University of Pennsylvania and NBER, United States of America; ³KAIST, Korea

Discussant: **Mark Hutchinson** (University College Cork)

We exploit heterogeneity in decreasing returns to scale parameters across funds to analyze their effects on capital allocation decisions in the mutual fund market. We find strong evidence that steeper decreasing returns to scale attenuate flow sensitivity to performance, which has a large effect on equilibrium fund sizes. Our results are consistent with a rational model for active management. We argue that an important fraction of cross-sectional variation in fund sizes is due to investors rationally anticipating the effects of scale on return performance.

[van Binsbergen-Capital Allocation and the Market for Mutual Funds-131KimJeong Ho {John}Kim.pdf](#)

4:00pm - 4:30pm Break

4:30pm - 6:00pm Session 4

Session Chair: **Evgenia Passari**, University Paris Dauphine

<https://us02web.zoom.us/j/85799461072?pwd=Q1FVRHAwc2wrMXFwei9xcjQvb2Z4dz09>

Dominated ETFs

David Brown, Scott Cederburg, Mitch Towner

University of Arizona, United States of America

Discussant: **Hugues Langlois** (HEC Paris)

We study dominated products in the market for U.S. equity exchange-traded funds (ETFs). We identify a large number of dominated ETFs with returns that are highly correlated with those of cheaper, more liquid competitors. Counterintuitively, these dominated ETFs are abnormally large relative to expectations based on fund characteristics related to fees, liquidity, performance, strategy uniqueness, and investor awareness. We estimate the aggregate cost to investors from allocating capital to dominated ETFs to be \$1.0 billion to \$6.7 billion from 2000 to 2018. These costs are growing over time as newly listed ETFs claim unique strategies despite high correlations with cheaper ETFs.

[Brown-Dominated ETFs-113TownerMitchBrown.pdf](#)

LTCM Redux? Hedge Fund Treasury Trading and Funding Fragility during the COVID-19 Crisis

Mathias S Kruttili^{2,3}, Phillip J Monin², Lubomir Petrasek², Sumudu Watugala^{1,3}

¹Cornell University, United States of America; ²Federal Reserve Board of Governors, United States of America; ³Oxford-Man Institute of Quantitative Finance, University of Oxford, United Kingdom

Discussant: **Christian Gouriéroux** (University of Toronto)

During the March 2020 U.S. Treasury (UST) market turmoil, the average UST trading hedge fund saw significant losses and reductions in UST exposures, despite unchanged bilateral repo volumes and haircuts. Analyzing fund-creditor borrowing data reveals the more regulated dealers provided disproportionately more funding during the crisis. Despite low contemporaneous outflows, hedge funds boosted cash, and reduced portfolio size and illiquidity. Following Fed intervention calming markets, fund returns recovered quickly, but their UST activity did not. Overall, reduced hedge fund UST liquidity provision was driven by fund-specific liquidity management constrained by margin pressure and expected redemptions, rather than creditor regulatory constraints.

[Kruttili-LTCM Redux Hedge Fund Treasury Trading and Funding Fragility during the COVID-19 Crisis-111KruttiliMat.pdf](#)

6:00pm - 7:00pm

Session 5

Session Chair: **Tamara Nefedova**, Université Paris-Dauphine

The Hedge Fund Industry is Bigger (and has Performed Better) Than You Think

Danny Barth¹, Juha Joenväärä², Mikko Kauppila³, Russ Wermers⁴

¹Board of Governors of the Federal Reserve System; ²Aalto University, Finland; ³University of Oulu, Finland; ⁴University of Maryland at College Park

Discussant: **Vikas Agarwal** (Georgia State University)

Of first-order importance to the study of potential systemic risks in hedge funds is the aggregate size of the industry. The worldwide hedge fund industry has been estimated by regulators and industry experts as having total net assets under management of \$2.3–3.7 trillion as of the end of 2016. Using a newly combined database of several hedge fund information vendors, augmented by the first detailed, systematic regulatory collection of data on large hedge funds in the United States, we estimate that the worldwide net assets under management were at least \$5.0 trillion in 2016, around 37% larger than the most generous estimate. Gross assets, which represent the balance sheet value of hedge fund assets, exceed \$8.3 trillion. We further decompose hedge fund assets by their self-reported strategy and by fund domicile. We also show that the total returns earned by funds that report to the public databases are significantly lower than the returns of funds that report only on regulatory filings, both in aggregate and within nearly every fund strategy. This difference appears to be driven entirely by alpha, rather than by differences in exposures to systematic risk factors. However, net investor flows are considerably higher for funds reporting publicly. Regression results show that previous estimates of the flow-performance relationship are likely biased. Our new, and much larger, estimates of the size of the hedge fund industry should help regulators and prudential authorities to better gauge the systemic risks posed by the industry, and to better evaluate potential data gaps in private funds.

[Barth-The Hedge Fund Industry is Bigger-146WermersRussJoenväärä.pdf](#)

Date: Friday, 21/Jan/2022

10:00am - 12:15pm Session 6

Session Chair: **Fabrice Riva**, Université Paris-Dauphine
<https://us02web.zoom.us/j/85799461072?pwd=Q1FVRHAWc2wrMXFwei9xcjQvb2Z4dz09>

Who Creates And Who Bears Flow Externalities In Mutual Funds?

Daniel Fricke, Stephan Jank, Hannes Wilke

Deutsche Bundesbank, Germany

Discussant: **Juha Joenväärä** (Aalto University)

Using a unique dataset on the sectoral ownership structure of euro area equity mutual funds, we study how different investor groups contribute to the negative externality on performance resulting from large outflows. Investment funds, as holders of mutual funds, are the main contributors to the flow externality. Insurers and households, in particular less financially-sophisticated ones, are the main receivers. These differences are due to investment funds reacting more strongly on past fund performance and displaying a more pro-cyclical investment behavior compared to households and insurers. Our results raise concerns regarding consumer protection and financial stability arising from the trading activity of fund managers.

[Fricke-Who Creates And Who Bears Flow Externalities In Mutual Funds-145JankStephanJank.pdf](#)

Sustainability or Performance? Ratings and Fund Managers' Incentives

Nickolay Gantchev¹, Mariassunta Giannetti², Rachel Li³

¹University of Warwick, CEPR, ECGI; ²Stockholm School of Economics, CEPR, ECGI; ³University of Alabama

Discussant: **Marie Lambert** (University of Liège)

We explore how mutual fund investors collectively value sustainability when the tradeoff with performance becomes salient. Following the introduction of Morningstar's sustainability ratings (the "globe" ratings), mutual funds increased their holdings of sustainable stocks in an attempt to improve their globe ratings. This trading behavior created buying pressure, decreasing the returns of stocks with high sustainability ratings. Consequently, a tradeoff between sustainability and performance emerged and the performance of funds improving their globe ratings deteriorated. Since performance appears to be more important in attracting flows than sustainability, in the new equilibrium, the globe ratings do not affect investor flows and funds do not trade to improve their globe ratings.

[Gantchev-Sustainability or Performance Ratings and Fund Managers' Incentives-139GiannettiMariassuntaGantchev.pdf](#)

Hedge Fund Performance under Misspecified Models

David Ardia¹, Laurent Barras², Patrick Gagliardini^{3,5}, Olivier Scaillet^{4,5}

¹GERAD and HEC Montréal, Canada; ²McGill, Canada; ³Università della Svizzera Italiana, Switzerland; ⁴University of Geneva, Switzerland; ⁵Swiss Finance Institute

Discussant: **René Garcia** (Université de Montréal)

We develop a formal approach for comparing performance across misspecified models—a common feature of models faced with the challenge of evaluating hedge funds. This comparison sharpens performance evaluation by identifying models less prone to misspecification. We show that the standard models include factors with limited ability to capture hedge fund returns. As a result, they produce the same positive alphas as a simple CAPM. Building on the recent literature, we then form a new model based on economically-motivated factors, including variance, carry, and time-series momentum. We find that this model achieves a substantial reduction in hedge fund performance.

[Ardia-Hedge Fund Performance under Misspecified Models-118ScailletOlivierArdia.pdf](#)

12:15pm - 2:15pm Lunch Break

2:15pm - 4:30pm Session 7

Session Chair: **Cristian Tiu**, University at Buffalo
<https://us02web.zoom.us/j/85799461072?pwd=Q1FVRHAWc2wrMXFwei9xcjQvb2Z4dz09>

Bond Returns and the Trading of Large Mutual Funds

Mariassunta Giannetti¹, Chotibhak Jotikasthira²

¹Stockholm School of Economics, Sweden; ²Southern Methodist University

Discussant: **Sugata Ray** (University of Alabama)

We show that mutual funds with a large share of a bond issue sell their holdings of that issue to a lower extent when they experience redemptions, arguably because they attempt to avoid negative effects on the bond price, which would feedback on their performance. As a consequence, bond issues with more concentrated ownership experience higher returns during periods of turmoil and have lower price volatility. We provide evidence that the stabilizing trading of bond funds with a large share of an

outstanding issue can help explain how the intervention of the Fed in the bond market through the Secondary Market Corporate Credit Facility quickly stabilized both eligible and ineligible bonds.

[Giannetti-Bond Returns and the Trading of Large Mutual Funds-138JotikasthiraChotibhakGiannetti.pdf](#)

Hiding in Plain Sight: The Global Implications of Manager Disclosure

Richard Evans¹, Miguel Ferreira², Pedro Matos¹, Michael Young³

¹University of Virginia; ²Nova School of Business and Economics; ³University of Missouri

Discussant: **Sumudu Watugala** (Cornell University)

Given the potential for agency conflicts in delegated asset management, and the constant push for disclosure by regulators, we examine a clear potential source of agency conflicts in the mutual fund industry: anonymously managed mutual funds. Using a global sample of mutual funds, we find that 17% of funds worldwide, excluding the US, and 22% of emerging market funds do not disclose the names of their management team. Anonymously managed funds significantly underperform, have lower active share, return gap, tracking error, and higher R2 than funds with named managers. They are more frequent in families with cooperative structures, and in bank affiliated funds. Further examining fund performance and activity around changes in SEC disclosure regulation, as well as performance of anonymous twin funds, we find that both performance and fund activity increases following new regulation that required disclosure of manager names. This is important, as it provides evidence that the underperformance of anonymous teams is related to the disincentive brought on by anonymous management, and not solely due to less skilled managers being kept anonymous.

[Evans-Hiding in Plain Sight-156YoungMichaelYoung.pdf](#)

Anticipatory Trading Against Distressed Mega Hedge Funds

Vikas Agarwal¹, George O. Aragon², Vikram Nanda³, Kelsey Wei³

¹Georgia State University; ²Arizona State University, United States of America; ³University of Texas at Dallas

Discussant: **Christian Lundblad** (University of North Carolina at Chapel Hill)

We examine the trading activity of institutional investors when mega hedge funds (MHFs) experience financial distress. In anticipation of a 1% drop in stock ownership by distressed MHFs next quarter, other institutions reduce their stock ownership of the same stocks by 1.79% in the current quarter. A one standard-deviation higher measure of anticipatory trading predicts 1.57% per year lower abnormal equity portfolio returns for distressed MHFs. Stocks that are anticipated to be sold by distressed MHFs experience negative abnormal returns and subsequent return reversals. We conclude that institutional investors front-run the distressed trades of MHFs and destabilize stock prices.

[Agarwal-Anticipatory Trading Against Distressed Mega Hedge Funds-152AragonGeorge O.Aragon.pdf](#)