

Summary of *Do fund managers misestimate climatic disaster risk?*

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1. What are the research questions?

- Do/How mutual fund manager misestimate the impact of climatic disaster?

2. Why are the research questions interesting?

- Climate risk needs to be better reflected in the price, but limited empirical research
- Climate change-amplified natural disasters can significantly damage corporate profits.
 - follow-up question: can investors correctly estimate climate disaster-related risks
 - institutional funds: large and increasing, marginal price setting traders

3. What is the paper's contribution?

- contribute on literature in climate risks.
 - **Prior:**
 - * how climate risks influence asset prices, whether through rational responses or irrational deviations. (Bansal et al., 2016; Hong et al., 2019)
 - * how climate risks influence investor behavior-fund managers risk averse after their disaster experience (Bernile et al., 2017)
 - **Extend:**
 - * complement by large data on actual trading behavior of mutual fund managers
 - * finding: Saliency bias

4. What hypotheses are tested in the paper?

- H1: Nearby mutual funds underweight disaster zone firms more than distant funds.
- H2A: If this is due to superior information, the stocks should underperform.
- H2B: If due to saliency bias, the stocks should not underperform.

Do these hypotheses follow from theory? Explain logic of the hypotheses.

- H1: Based on behavioral finance and geographical investment theories, nearby funds are more sensitive to disasters and are more likely to adjust their portfolios.
- H2A: Based on information advantage theory, nearby funds may have better local information, leading to a reasonable expectation of poorer performance
- H2B: Based on saliency, disaster events may cause managers to overreact.

5. Comment on the appropriateness of the sample, variable, model

- 1995-2016 disaster, diversified funds ≥ 10 stocks. Why diversified?
- fig2: Why reduction in holdings before the disaster?
- Why not control for fund manager characteristics?

6. What difficulties arise in drawing inferences from the empirical work?

- Is it possible that the treatment groups are inherently coastal and already sensitive to disasters?

7. Describe at least one publishable and feasible extension of this research.

- Differentiate between expected and unexpected disasters.