# Summary of *Do Fund Managers Misestimate Climatic Disaster Risk?*

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Summarized by Li Ziming

1. **What are the research questions?**
   - Whether mutual fund managers misestimate the risk of climatic disasters?
2. **Why are the research questions interesting?**
   - Mutual funds are crucial price setters in the market, and their misestimations could impact the informational efficiency and broadly affect the real economy.
   - There is limited empirical research on the asset pricing implications of the climate risk.
3. **What is the paper's contribution?**
   - Contribute to the literature studies the impact of climate risks on asset pricing.
     - Prior literature: Market prices accurately reflect long-run climate risks (Bansal et al., 2016); stock prices in the food sector do not accurately reflect climate risks (Hong et al., 2019); corporations located in hurricane areas irrationally hoard excess liquidity (Dessaint and Matray, 2017).
     - Extend: Providing empirical evidence on whether fund managers overreact to climatic disasters.
   - Contribute to the literature that examine the risk aversion of fund managers.
     - Become more risk-averse after disaster experience, reducing fund's volatility (Bernile et al., 2017).
     - Extend: Fund managers in close proximity to disaster zones significantly underweight disaster-zone stocks compared to distant managers.
4. **What hypotheses are tested in the paper?**
   - H1: Mutual funds located close to firms in disaster zones will underweight such firms compared to funds located farther away.
   - H2A (Information Hypothesis): If mutual fund managers underweight disaster-zone stocks because of superior information, these stocks should underperform in the future.
   - H2B (Salience Hypothesis): If managers underweight disaster-zone stocks due to salience bias, these stocks should not underperform in the future.

   **a) Do these hypotheses follow from and answer the research questions?**
   - Yes.

   **b) Do these hypotheses follow from theory? Explain logic of the hypotheses.**
   - The "information hypothesis" follows from traditional finance theory, where local managers may possess superior knowledge about the impact of disasters on nearby firms.
5. **Sample: comment on the appropriateness of the sample selection procedures.**
   - The sample focuses on mutual funds that are within a 100-mile radius of the disaster zone, which allows the authors to examine the salience bias effect.
6. **Comment on the appropriateness of variable definition and measurement.**
   - The article's setting of distance range is too subjective. Can we treat the distance as a variable and examine the greater the distance, the smaller the impact will be.

7. **Comment on the appropriateness of the regress/predict model specification.**

    - Employ DID framework to compare fund behavior before and after disasters and controls for fixed effects such as fund, year, and county-level characteristics, which helps minimize bias from unobserved factors.

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

    - How to distinguish between salience bias and superior local information as reasons for the underweighting of disaster-zone stocks.

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

    - How fund managers' reactions to other types of non-climatic disasters (e.g., pandemics, terrorist attacks) affect their portfolio decisions.