Summary of Do Fund Managers Misestimate Climatic Disaster Risk?

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1. **What are the research questions?**
   - Whether professional money managers overreact to large climatic disasters?
2. **Why are the research questions interesting?**
   - There is increasingly concern about the impact of climate change risks on the capital markets.
     - However, there is limited empirical research on the asset pricing implications of climate risk.
   - It's important whether investors can estimate climate-disaster risks for their portfolios.
     - Salience bias imply mutual fund managers may misestimate the impact of a climatic disaster.
3. **What is the paper's contribution?**
   - Contribute to literature on climate risk which rely on rational asset pricing versus deviations from purely rational pricing.
     - Prior studies: rational(Bansal et al. ,2016) ; irrational(Hong et al. ,2019)
     - Expand the literature by analyzing whether/how fund managers misestimate climatic disasters risks.
4. **What hypotheses are tested in the paper? list them explicitly**
   - H1: Nearby mutual funds underweight firms in the disaster zone compared to distant funds.
   - H2A: If H1 is true and due to superior information, these stocks should underperform soon.
   - H2B: If H1 is true and due to salience bias, these stocks should not underperform soon.

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

   (b) **Do these hypotheses follow from theory or are they otherwise adequately developed? Please explain the logic of the hypotheses (use visualization if possible)**
   - Mutual fund managers may underweight local disaster firms for:
     - H2A: Fund managers may possess superior information regarding proximate firms
     - H2B: Fund managers may overestimate the probability of salient (but rare) disasters.
5. **Sample: comment on the appropriateness of the sample selection procedures**
   - The selection of funds and disasters is appropriate.
6. **Dependent and independent variables: comment on the appropriateness of variable definition and measurement (focus on the key dependent variables and independent variables)**
   - CLOSE: Different disasters should have different scopes of impact.
7. **Regression/prediction model specification: comment on the appropriateness of the regression/prediction model specification**
   - Controls for fund managers should be considered, such as age.

8. **What difficulties arise in drawing inferences from the empirical work**
    - The empirical work is rigorous.
9. **Describe at least one publishable and feasible extension of this research**
    - New indicator: fund sensitivity for disaster.