

A Winning Edge: How Team-Managed Mutual Funds Outsmart the Market in Flow Dynamics

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Abstract

This study delves into the performance predictability and competitive behavior of mutual funds based on their organizational structure and flow dynamics. It examines the contrasting outcomes of team vs. individual-managed funds during periods of outflows and inflows, focusing on their decision-making processes and value generation. Results reveal a compelling competitive advantage wielded by team-managed funds in effectively navigating the challenges posed by redemptions. Specifically, funds managed by teams showcase a remarkable ability to make astute trading decisions that preserve and enhance their performance, reflecting their adeptness in handling pressure and maintaining their competitive edge. Interestingly, an intriguing paradox emerges when examining the performance of such funds during inflow periods: despite their strengths, they struggle to capitalize on new subscriptions, facing hurdles in expanding their portfolios and making informed investment choices. Our analysis sheds light on the pivotal role of fund shareholders in shaping the competitive actions of fund managers. We underscore the critical importance of diligent monitoring of team-managed funds during inflows to proactively address potential agency issues and exploit the full potential of their informed decision-making. Moreover, we highlight the significance of team composition, with larger, older, and more diverse experienced teams demonstrating superior competitiveness. However, cautionary notes arise concerning diverse ethnic and interconnected teams as they threaten valuable portfolio growth. We suggest that investors consider team characteristics before subscribing or redeeming a fund; in the case of regulators, we draw attention to the need to supervise management companies when they place their managers to run multiple portfolios simultaneously, as this harms the capability of funds in delivering competitive outcomes.

Keywords: Mutual funds, flow dynamics, performance predictability, team characteristics

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