

The Winning Edge:

HOW
TEAM
MANAGED

OUTSMART
THE MARKET

FUNDS



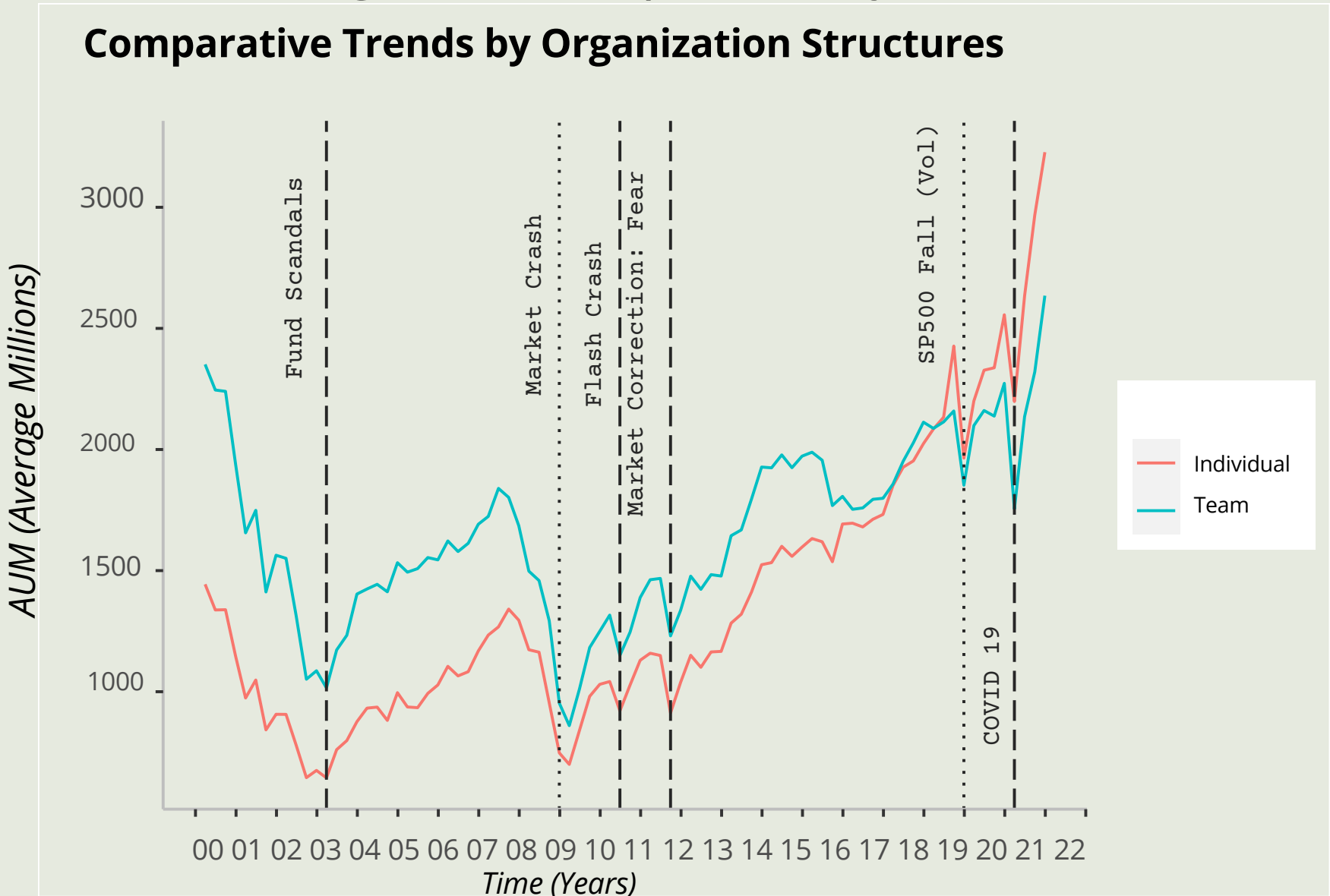
in Flow Dynamics

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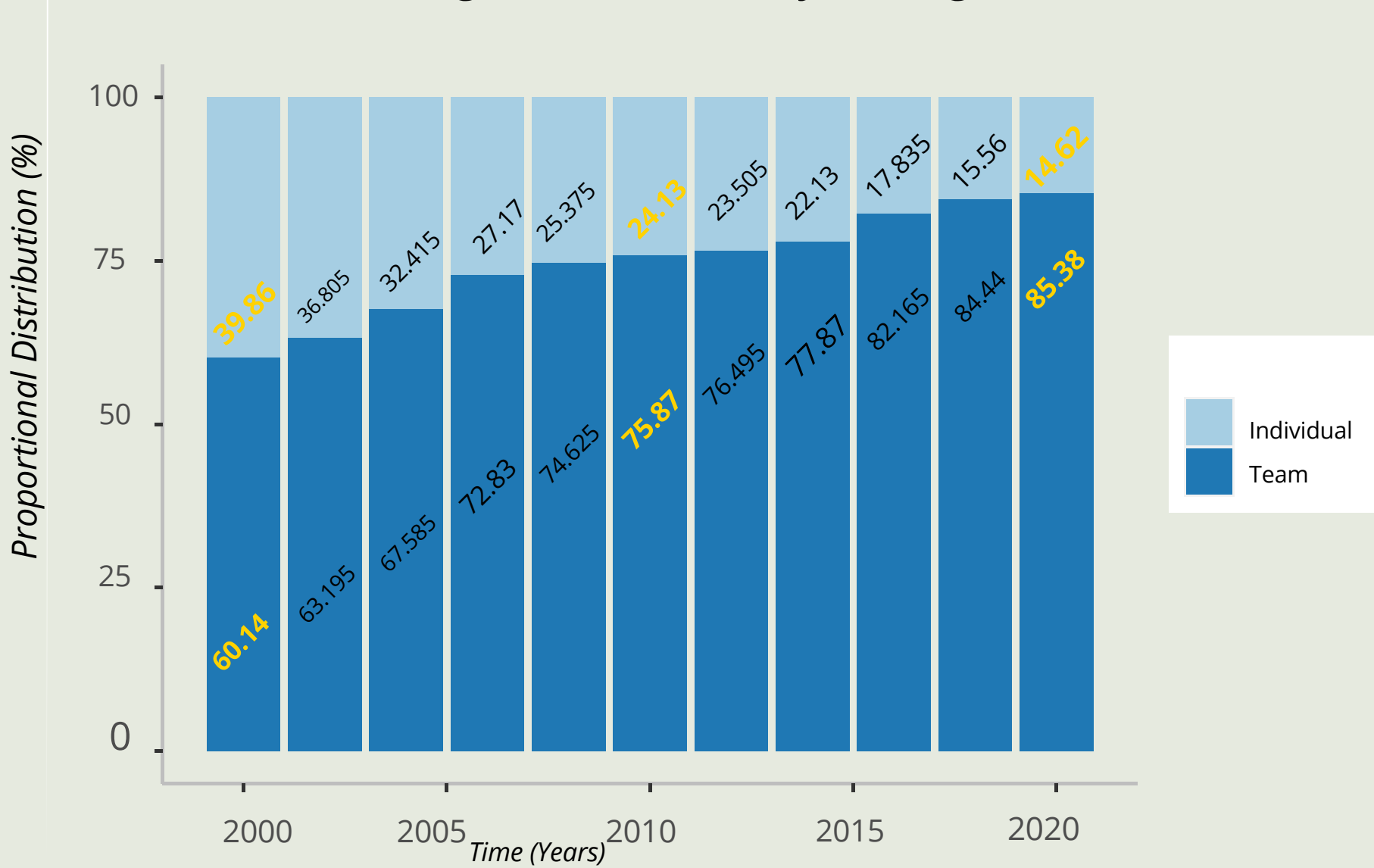
Management Structures on Equity Portfolios

Asset Management Responsibility Over Time



Biennial Comparison of Asset Management Structures

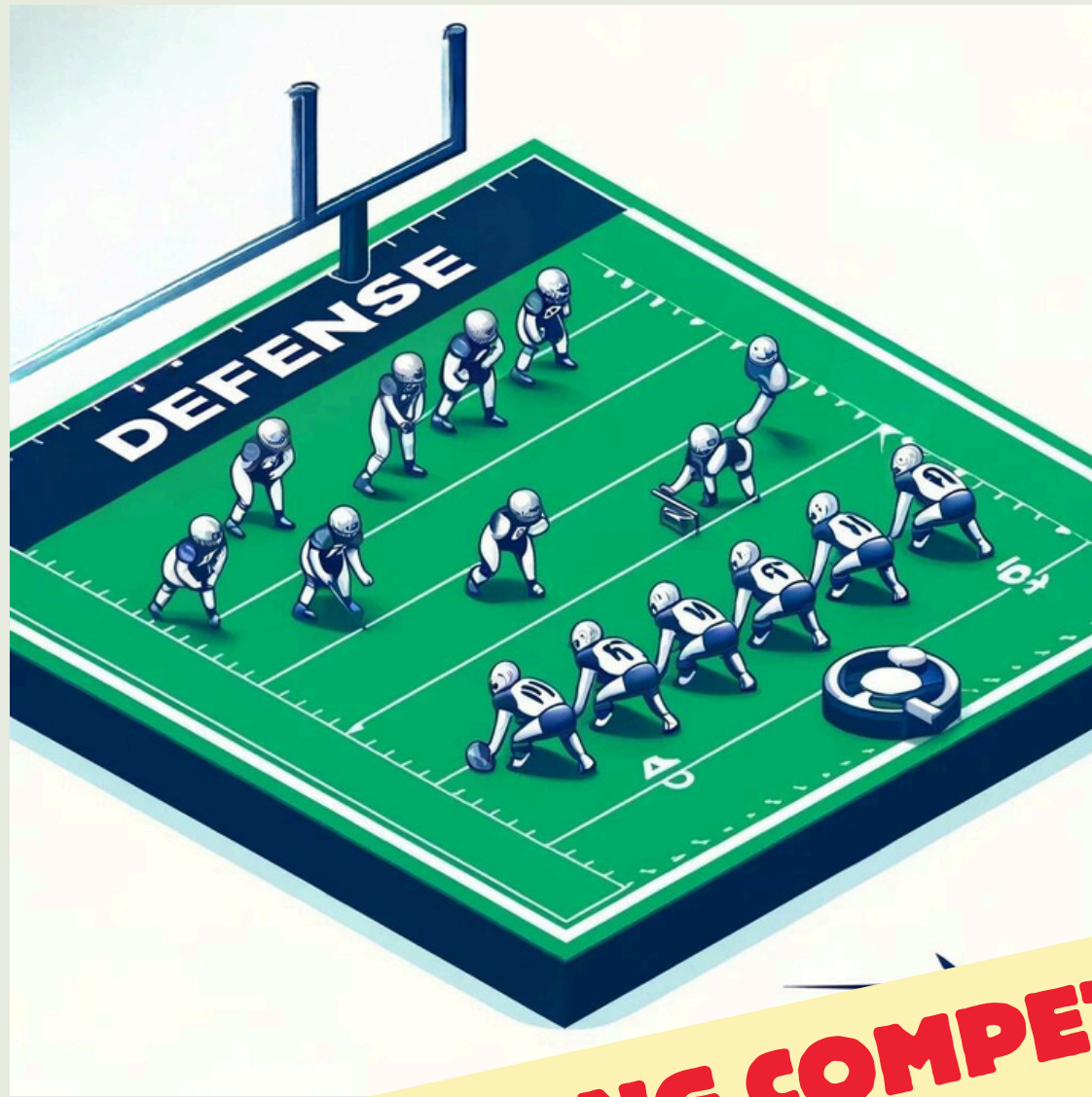
Active Team-Managed vs. Individually-Managed Funds



- **Shift in Responsibility:** Teams traditionally manage larger portfolios, yet recent trends show a change toward smaller in comparisson to individuals.
- **Increased Popularity:** Between 2000 and 2020, the prevalence of team management structures in the industry increased monotonically by 42%.

MORE TEAMS ON SMALLER PORTOLIOS
No Clear Victory

The Winning Edge: Strategic Adaptability



Just like a football team adjusts its strategy from defense to attack based on the game situation, team-managed funds adapt their portfolio strategies based on capital flows.

- Defensive Play (**Capital Outflows**): Teams contract the portfolio defensively to protect the fund's value.
 - Offensive Play (**Capital Inflows**): Teams expand the portfolio aggressively to maximize growth opportunities.
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- Teams Control billions of dollars on equity assets.
 - The active behavior of teams affects the market stability and investors' interest.

On Active Equity Portfolios

- Does Team Management Structure's **Competitive Change** Based on the Direction of **Capital Flows**?
- How Does Team **Composition** Influence the Adaptability and **Competitive Edge** of Team-Managed Funds Under Varying Flow Dynamics?

Literature (Mixed Results)

- Evans et al. (2020): **State** that *Team-managed funds*, characterized by interconnected member dynamics, often exhibit more **cooperative** behavior within a family.
- **Teams do better When:** a) Evaluated against a *prospectus benchmark* (Patel and Sarkissian(2017)); b) Operating under an *independent board* (Adams et al. (2018)).
- **Teams do worst when:** a) Control by *Portfolio Size* (Chen et al. (2004)); b) During *Bear Markets* (Karagiannidis et al. (2010)).
- **No difference when:** a) Unconditional comparison (Prather and Middleton (2002), Bliss et al. (2008)).

The Research

- **Challenges and nuances** the prevailing notion of inherent **cooperation** in a competitive industry where team structures dominate.
- **Introduces** a crucial dimension by linking **flow dynamics** with the competitive **behavior of teams**, providing explanations of why there is growing responsibility of teams in managing smaller portfolios.
- **Highlights** how the **diversity (ethnicity, experience)**, the **age and size of teams** critically **influence** their **ability to adapt** to capital flows **offering a fresh perspective** on optimizing team structure for **better flow**

A Comparative Analysis of Team vs. Individual Decision-Making Dynamics

$$Select_{f,t} = Team_{f,t} + Controls_{f,t-1} + \epsilon_{f,t}$$

	Sales In Outflows	Purchases In Inflows
Team:	0.1149* (0.0691)	- 0.3644** (0.1723)
Obs:	31271	14653
R2-Adj:	0.143	0.146

Controls: Returns, Cash, Illiquidity (Amihud), Loads, Management Fee, Fund Size, Family Size

Fixed Effects: a) (Time x Inv. Style)
b) (Family)

The Paradox
of Inflows

Selectivity (Ex-ante): Following Da et al. (2011)

$$PR_t^{fund} = \sum_{stock} W_{stock,t}^{Purchase} (R_{stock,t+1} - R_{stock,t+1}^{Benchmark})$$
$$SR_t^{fund} = \sum_{stock} W_{stock,t}^{Sale} (R_{stock,t+1} - R_{stock,t+1}^{Benchmark})$$

- Benchmark Definition:** We establish 125 portfolios by sorting all stocks across 5 Market-Cap, 5 Book-to-Market, and 5 Momentum factors using the Kenneth R. French breakpoints.
- Team:** (Binary) takes a value of one when a fund is managed two or more managers in a particular period.

- Dataset Overview:**
 - Scope: Data on 4,533 active equity mutual funds.
 - Period: Covers two decades, from 2000 to 2020.
- Data Sources and Integration:**
 - Primary Source: CRSP mutual fund database for fund-specific metrics like net returns, total net assets (TNA), and investment style.
 - Portfolio Transactions: Quarterly holdings from Thomson Reuters S12 and CRSP to track funds' buying and selling activities.
 - Managerial Data: Detailed manager and advisor information from Morningstar Direct, tracking career starts and fund affiliations.
- Data Processing:**
 - Exclusions: Sector, international, and index funds removed; focus on capitalization-based and style funds.
 - Data Treatment: Winsorized at the 1st and 99th percentiles to manage outliers.
 - Fund Criteria: Only funds with at least two years of data and over ten million in assets considered (Evans 2010).
 - Frequency: Data analyzed on a quarterly basis to reflect changes in portfolio holdings

Team Characteristics and Their Role in Decision-Making

Sales In Outflows

Large Teams	0.1371*	
	(0.0757)	
Diverse (Ethnicity)		-0.3455*
		(0.1827)
Team	0.0520	0.1041
	(0.0701)	(0.0700)
Obs	31261	31409
R2-Adj	0.141	0.151

- **Large Team:** A dummy variable set to one when the number of managers in a team exceeds four.
- **Diverse Team (Ethnicity):** Measures team diversity using Blau's index for ethnicity, which quantifies diversity across six categories: White, Black, Indian and Pacific, Hispanic, Asian, and Other.

Purchases In Inflows

Team Age (Older)	0.0215*		
	(0.0113)		
Team Co-Management		-0.5005*	
		(0.2248)	
Diverse (Experience)			0.3822*
			(0.1930)
Team	-1.2817**	0.0672	-0.5927***
	(0.5225)	(0.2601)	(0.2141)
Obs	13978	14882	11222
R2-Adj	0.142	0.146	0.141

- **Team Age (Older):** A dummy variable set to one when the average age of the team members exceeds 40 years.
- **Interconnected (Co-Management) Team:** Represents the proportion of team members involved in co-management activities, indicating the level of interconnectedness within the team.
- **Diverse Team (Experience):** Calculated as the coefficient of variation of the years of experience each manager has in the asset management industry.

$$Select f, t = TeamChar_{f,t} + Team_{f,t} + Controls_{f,t-1} + \epsilon_{f,t}$$

Defense Over
Offense

Balance the Paradox

Controls: Returns, Cash, Illiquidity (Amihud), Loads, Management Fee, Fund Size, Family Size
Fixed Effects: a) (Time x Inv. Style)
b) (Family)

Suggestions and Recommendations



MANAGING WITHDRAWALS

- **Team Power:** Opt for team-managed funds with large, cohesive teams during liquidity shortages or capital outflows to ensure robust defense.
- **Avoid Social Pitfalls:** Select teams where members exhibit low susceptibility to social conflicts, enhancing decision-making effectiveness.

CAPITALIZING ON EXPANSION:

- **Individual Agility:** Favor individual-managed funds during periods of high liquidity or expansion for more competitive growth investment opportunities
- **Choose Wisely:** If opting for team-managed funds, ensure the team consists of older members with a diverse range of experiences to foster informed decision-making.
- **Beware of Interconnections:** Avoid teams with a high proportion of co-managing members, as they tend to prioritize cooperative behavior over competitive.







For further inquiries or collaboration opportunities, let's connect!



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