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Implications of fund manager turnover in China

Yaping Wang, Kwangsoo Ko

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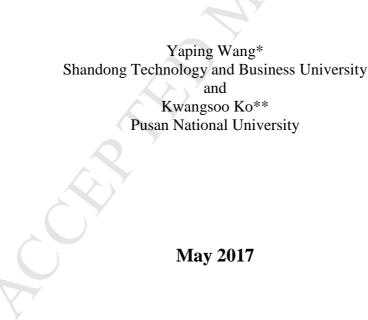


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Abstract

This study investigates the effect of manager turnover on fund returns in China, the largest developing market. Using unique Chinese data, we extend the study of Khorana (2001) by classifying manager turnover as internal relocation, switch to outside mutual fund, switch to hedge fund, and dropout from the fund industry. Among the four types of manager turnover, only dropout shows significantly negative pre-replacement and positive post-replacement excess returns over the benchmark. When a skilled (an unskilled) manager is replaced, post-replacement performance gets worse (better) than pre-replacement performance. A takeover of a fund by an experienced manager is likely to result in better post-replacement performance than takeover by an inexperienced manager.

JEL classification: G10, G11 Key words: Fund manager turnover, Internal relocation, Switch to outside fund, Dropout, China



* First author: Department of Business Administration, College of Accounting, Shandong Technology and Business University, No. 191, Binhaizhonglu Road, Laishan-gu, Yantai, China. e-mail: <u>yaping77@sdibt.edu.cn</u>.

** Corresponding author: Department of Business Administration, College of Business, Pusan National University, 2, Busandaehak-ro 63beon-gil, Geumjeong-gu, Busan 609-735, Korea. <u>Tel: +51-510-3730</u>. Fax: +51-581-8180. e-mail: <u>kks1201@pnu.edu</u> or <u>iloveksri@hanmail.net</u>.

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