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Implications of fund manager turnover in China

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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

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