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Gender, style diversity, and their effect on fund performance☆

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ABSTRACT

This paper examines the performance of 358 European diversified equity mutual funds controlling for gender diversity. Fund performance is evaluated against funds' designated market indices and representative style portfolios. Consistently with previous studies, proper statistical tests point to the absence of significant differences in performance and risk between female and male managed funds. However, perverse market timing manifests itself mainly in female managed funds and in the left tail of the returns distribution. Interestingly, at fund level there is evidence of significant overperformance that survives even after accounting for funds' exposure to known risk factors. Employing a quantile regression approach reveals that fund performance is highly dependent on the selection of the specific quantile of the returns distribution; also, style consistency for male and female managers manifests itself across different quantiles. These results have important implications for fund management companies and for retail investors' asset allocation strategies.

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1. Introduction

Since their launch towards the end of the 19th century mutual funds have been acting as financial intermediaries channelling savings to the most profitable investments, thereby promoting financial stability and social welfare. Designed to provide liquidity, they are the preferred investment vehicle for retail investors mainly because of the benefits of risk diversification and professional management that are not otherwise easily accessible. However, it is not so rare for fund managers to act in a self-interested manner seeking to maximize their compensation through the adoption of gambling strategies (Chevalier and Ellison, 1997).

Following the seminal works of Treynor (1965), Sharpe (1966), and Jensen (1968) most papers have been striving to determine whether actively managed funds are able to deliver superior risk-adjusted returns with respect to a benchmark portfolio. To this end traditional performance measures compare the return of the portfolio of interest with that of a properly defined unmanaged portfolio (benchmark return) after accounting for all aspects of assumed investment risk. The evolution of financial theory has contributed substantially to the proper definition of investment risk that should be accounted for when evaluating the performance of active fund managers. In this context, the single factor evaluation model introduced by Jensen (1968) has been gradually replaced by multi-factor models (Fama and French, 1993; Carhart, 1997). On the other hand, conditional performance evaluation models have been developed on the assumption that fund managers might shift their investment strategy responding to market-wide information (Ferson and Schadt, 1996; Kosowski, 2006; Jha et al., 2009). In view of the growing popularity of mutual funds academic research has attempted to shed light on various aspects of their behaviour. Sirri and Tufano (1998) in their influential study pointed out the importance of mutual funds as a laboratory where one can study the actions of retail investors who buy fund shares. Investors usually base their selection on past performance information but invest asymmetrically, i.e., more in funds that performed very well in the near past. Although it has been recognized that actively managed mutual funds, on average, fail to outperform the market or any combination of passively managed portfolios (Fama and French, 2010), there is evidence that some predetermined variables such as past performance might have predictive power for future investment performance. Performance either measured in an absolute way or on a risk-adjusted basis is related to past performance, managerial characteristics including manager age, education etc. (Chevallier and Ellison, 1999) and fund characteristics such as expenses, turnover and size (Prather et al., 2004); investors seem to recognize this to a certain extent and chase past winners (Gruber, 1996). Another fund characteristic highlighted in some studies is manager style. There is mixed evidence whether fund managers of a certain style tend to outperform or underperform passive benchmarks (see inter alia Daniel et al., 1997; Davis, 2001).

However, there is limited research on the role of the manager gender on fund performance. Well documented differences between men and women in terms of investment behaviour and/or risk-taking have attracted the research interest of other social sciences and economics literature. For example, previous studies have shown that men are more confident (Barber and Odean, 2001) and/or less risk averse than women (Sunden and Surette, 1998). However, the latter was disputed by Schubert et al. (1999), who attributed women's higher levels of risk aversion to the use of survey data and their inability to capture adequately differences in other relevant factors such as the investment opportunity set. Professional money management provides the perfect setting to explore stereotyped behavioural issues mainly because it includes a homogeneous group of individuals with comparable levels of financial expertise. It allows to capture differences in wealth and knowledge in a more effective manner than in an experimental setting. Both Atkinson et al. (2003) and Niessen and Ruenzi (2013), using a sample of US bond and equity funds, respectively, reached the conclusion that there are no significant differences in the risk-adjusted performance of male and female managers. In a related study Beckmann and Menkhoff (2008) analyzed the survey responses of 649 fund managers in the US, Germany, Italy and Thailand and confirmed that female fund managers are more risk averse and less overconfident than men.

Our paper makes a number of important contributions to the literature. First, we compare the performance of male and female managed equity funds employing a novel and comprehensive sample of European diversified equity funds which includes one of the largest proportions of female