

Title: **WHAT'S IN YOUR WALLET? IMPROVING MANAGER SELECTION WITH INSTITUTIONAL FACTORS**

Speaker: Brett Hammond, The Capital Group

Importance: Why this matters

Identification and selection of superior portfolio managers is crucial to asset owners successful utilization of active management. However, past performance and most other manager selection schemes have demonstrated little forecasting ability. This research correlates institutional (organizational) characteristics and subsequent mutual fund performance.

Investigation: "Speaker analyzed XXX data to address the questions yyy, zzz, etc."

They used returns and other data from 1997 to 2016 from the Morningstar mutual fund database for their research. Funds were domestic US large cap; value, blend and growth. Funds must have existed as of 1997 for inclusion.

Variables investigated include: expense level, manager tenure, portfolio manager ownership of funds, fund closure rate, company ownership (public versus private), downside protection, flexibility and turnover.

Innovation: Are there new techniques of interest in the data or approach to the problem?

Rather than focusing on fund-specific variables, for the most part they used variables that are descriptive of the parent organization to construct their models.

Insights: 1-2-3, what are the three most important things the speaker offered?

1. Organizational (as opposed to fund-specific) characteristics can be used to identify superior funds. Importantly, they tend to be more persistent than past returns and other fund-specific characteristics.
2. All of the variables presented exhibited predictive power. Their performance tended to be better for longer holding periods (10 years versus 1), and funds classified as value (rather than growth). Combinations worked better than single characteristics.
3. Expenses, portfolio manager ownership and manager tenure were the most predictive of success (outperforming the benchmark) and performance differential. Downside protection and flexibility were the next best.

Audience rating: