

# **Does Financial Globalization Propagate Managerial Skills?**

## **Lessons from the Mutual Fund Industry**

*Si Cheng, Massimo Massa, Hong Zhang*

### **Discussion at ABFER**

Nagpurnanand Prabhala  
University of Maryland, College Park

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# Summary

- Large sample of global mutual funds, 2001-2012
- Overseas expansion decisions
- Demand proxy: indexes unpopulated by foreigners
- Questions
  - Do funds expand in response to demand? Yes
  - Which funds expand: Less skilled ones
  - What are the consequences
    - Greater price delay, illiquidity of target stocks

# Overall Comments

- As a descriptive exercise, it generally works
  - International growth of funds is an interesting question
  - Difficult and elaborate effort on data
  - A creative new measure of demand.
- Suggestions
  - Microfound in theories of firm scope
  - Mapping to “catering” is unclear
  - Some empirical questions
  - Pretty hard slog to read.
- More on interpretation
  - Channels, implications, economic effects

# Microfoundations

- Theory of conglomerates (Lucas 1978; MP 2002)
  - A fixed resource limits horizontal growth
  - Conglomerates have productive cores and peripheral divisions of diminishing productivity
- This paper suggests an alternative foundation
  - Skill dispersion within country follows Lucas, MP. Does it?
  - Expansion across borders does not: Low skill funds grow and create other low skilled funds.
  - So CF researchers can do good AP research, but only low skilled CF (or AP) researchers do CS research?
- The authors should perhaps spell out a framework or model
  - Expand up from historical and descriptive narrative

# Microfoundations

- Choice of organizational form to expand (p9)
  - Country-specific closed-end funds?
  - Index funds?
  - ETFs?
  - Time trends in the above?
  - Expansion by and competition from these
- Networks are treated in undirected manner.
  - But this is a directed network
  - US to Africa not the same as Africa to the US
- Home bias literature
  - Seems to be at least a missing x variable

# Empirical Issues

- UIT, or unexplored indexes, is a new variable in the study
- More time motivating and describing the multiple layers of a complex, composite variable
  - Expansions in foreign market in general
  - Index creation process: who, when, etc.
  - Domestic investability and index creation
  - Foreign entry into unpopulated indexes
  - Which layers truly matter?
- Properties of the number of unexplored indexes
  - D-stats in Table 1:  $p_{10}=0$ ,  $p_{25}=0$ ,  $p_{50}=6$ ,  $p_{75}=16$ ,  $p_{90}=21$
  - Should we study separately  $[0, 0)$  and  $(0, n>0]$
  - Concavity in specifications? Does the effect of the  $n$ th index diminish in the #  $n$ ?

# Empirical Issues

- Do the [AUM] and [specific content of indexes] matter?
  - In the stock-level tests?
- Home and destination country (pairwise) fixed effects?
- Alpha is usually a Fama-French alpha
  - Paper constructs these for other countries
  - Are these well-specified?
- Robustness to DGTW style CS alphas?
  - May be better than alphas from rolling regressions
- Marginal effect of 20% seems a bit high
  - 4% unconditional probability
  - MFX = effect of one new index. But is this the right margin?

# Empirical Issues

- Table 5 confused me
  - Domestic fund alphas for those going abroad and catering
  - Baseline alphas in H, M, L insignificant
  - H minus L gives 20 bps per month and significant everywhere
- Liquidity and market quality tests
  - Are these associations or causal effects?
  - Investments may anticipate rather than impact market.
- Will the entry of high skilled funds improve things?
  - Adverse selection problems may worsen

# Other things

- Paper (correctly and conservatively) does not take a stance on counterfactuals
- But the question does not go away
  - What is the counterfactual world you might see?
  - Would it be worse off or better off?
- Is catering truly “catering” [to misvaluation]? Or is it just a demand proxy? Is it exogenous?
- Expositional issues
  - Decrease table density.
  - A rich paper with many new variables, ideas, specifications. Curate what you put in a bit more.