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1. Adverse selection and the performance of private equity co-investments

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背景

Investors increasingly look for private equity managers to provide opportunities for coinvesting outside the fund structure, thereby saving fees and carried interest payments.

内容

We use a large sample of buyout and venture capital co-investments to test how such deals compare with the remaining fund investments.

结论

In contrast to Fang, Ivashina, and Lerner (2015), we find no evidence of adverse selection. Gross return distributions of co-investments and other deals are similar. Co-investments generally have lower costs to investors.

启示

We simulate net returns to investors and demonstrate how reasonably sized portfolios of co-investments significantly outperform fund returns.

Motivation

PE

closed-end funds
limited partnerships
a finite life

blind pools
of capital

LP

GP

However, investors increasingly seek the opportunity to make investments in portfolio companies outside a fund structure (known as co-investments) .

Given that the fund managers can choose which investments to offer for co-investment, this raises the possibility that there may be a selected sample, either positively or negatively, relative to the deals that are not offered.

main issues

- Testing whether or not co-investment deals offered by GPs suffer from adverse selection is the central question addressed in this paper.

- Analyze the factors that determine whether GPs offer a deal for co-investment.
- Compare the gross return distributions of co-investments with the remaining fund investments to test for selection biases.
- Analyze whether particular types of investor, such as endowments, pension funds, insurance companies, etc., experience different returns.
- We consider the conditions under which investors benefit from co-investing.

Results

- We find that the main factor influencing whether a deal is offered for co-investment is deal size, relative to fund size.
- We find no evidence of adverse selection.
- We find that gross PMEs for co-investments are similar to the returns on deals from the same fund that are not offered for co-investment.
- We find neither significant differences between investor types nor that existing investors in the fund get better, or worse, returns than investors who are not LPs in the fund.

2. Competition and cooperation in mutual fund families

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Abstract

indices of family-level competitive/cooperative incentives

cooperation

coordinated behavior;
less volatile cash flows

competitive

higher performing funds
"star" funds
performance dispersion

incentive schemes

Competitive: institutional money

Cooperation: distribute through brokers

Motivation

- Performance competition is one of the central tenets of the academic study of asset management.
- Because investors respond positively to good performance and management fees are proportional to fund size.
- Previous literature suggests that managers have strong incentives to compete on performance.
- There is a growing literature documenting coordinated behavior across funds.

Main issues

- How can we reconcile evidence of both cooperation and competition among fund managers?
- Are the investment decisions of each fund manager focused on maximizing their own fund's performance or the overall value of the investment advisor?
- We examine how competitive and cooperative fund manager incentives affect fund and family strategies and outcomes.

Construct competitive/cooperative incentive index

- **manager compensation incentives** (e.g., manager ownership of the fund corresponds to competitive, manager ownership of the investment advisor corresponds to cooperative)
- and **fund management structure** (e.g., solo-managed fund corresponds to competitive or team-managed corresponds to cooperative)

Results

- families with a cooperative incentive scheme are more likely to have higher levels of cross-trading and cross-holdings.
- managers in families with greater competitive incentives have higher active share and tracking error.
- cash flow and return on assets volatility decrease with increased cooperative incentives.
- competitive incentives are associated with a higher percentage of “star” funds and higher average performance overall.

3. Is the active fund management industry concentrated enough?

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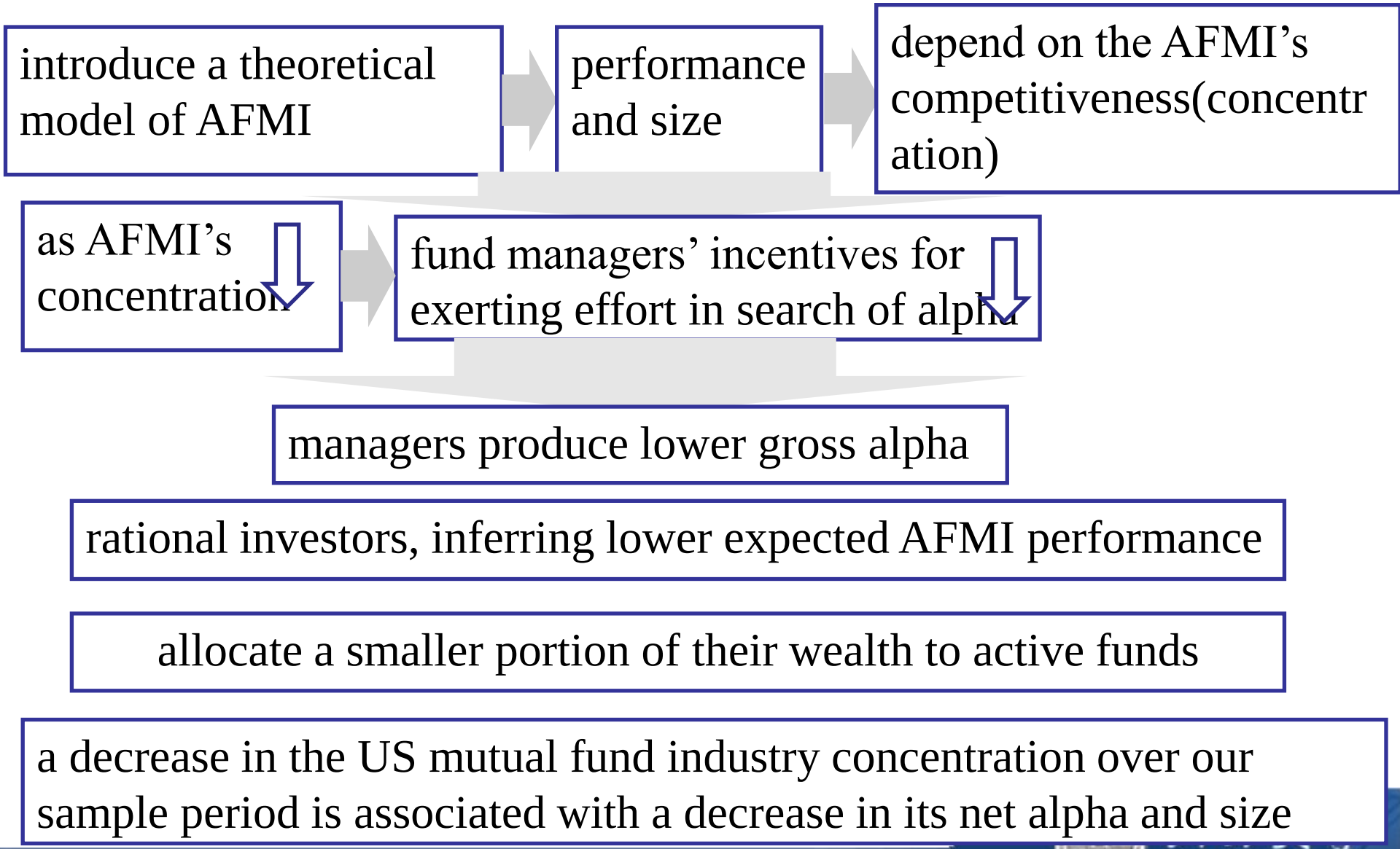
*(*a *School of Banking and Finance, UNSW Business School, University of New South Wales, Australia*
b *Wang Yanan Institute for Studies in Economics (WISE), Xiamen University)*

Abstract


introduce a theoretical model of AFMI
performance and size
depend on the AFMI's competitiveness(concentration)
as AFMI's concentration
fund managers' incentives for exerting effort in search of alpha
managers produce lower gross alpha
rational investors, inferring lower expected AFMI performance
allocate a smaller portion of their wealth to active funds
a decrease in the US mutual fund industry concentration over our sample period is associated with a decrease in its net alpha and size

Motivation

Recent literature argues that neither its massive size nor its performance is puzzling when gross alpha production is subject to decreasing returns to scale.

Intuitively, as more assets under management (AUM) chaes opportunities, prices adjust, making gross alpha harder to find.

These insights lead to several interesting questions. For example, do other gross alpha production inputs play a significant role in determining AFMI size and performance?

Main issues

AFMI concentration levels → optimal effort levels → AFMI performance and size

We introduce an AFMI model in which active fund managers choose (optimal) costly effort levels when competing over investment funds.

AFMI concentration levels influence optimal effort levels exerted by managers, which, in turn, influence AFMI performance and size.

We find evidence, consistent with our model, that decreases in the concentration of the US mutual fund industry are associated with decreases in its performance and size.

4. Cross-asset signals and time series momentum

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Abstract

document a new phenomenon

in bond and equity markets

cross-asset time series momentum

Past

Future

bond market returns

positive predictors

negative predictors

equity market returns

future

Past

construct a diversified cross-asset time series momentum portfolio

yields a Sharpe ratio 45% higher than a standard time series momentum portfolio

time series momentum

cross-asset time series momentum

driven by

slow-moving capital in bond and equity markets

Motivation

- Moskowitz et al. (2012) : assets' past 1- to 12-month returns are positive predictors of their future returns----time series momentum
- We: documenting a related cross-asset phenomenon in bond and equity markets---cross-asset time series momentum

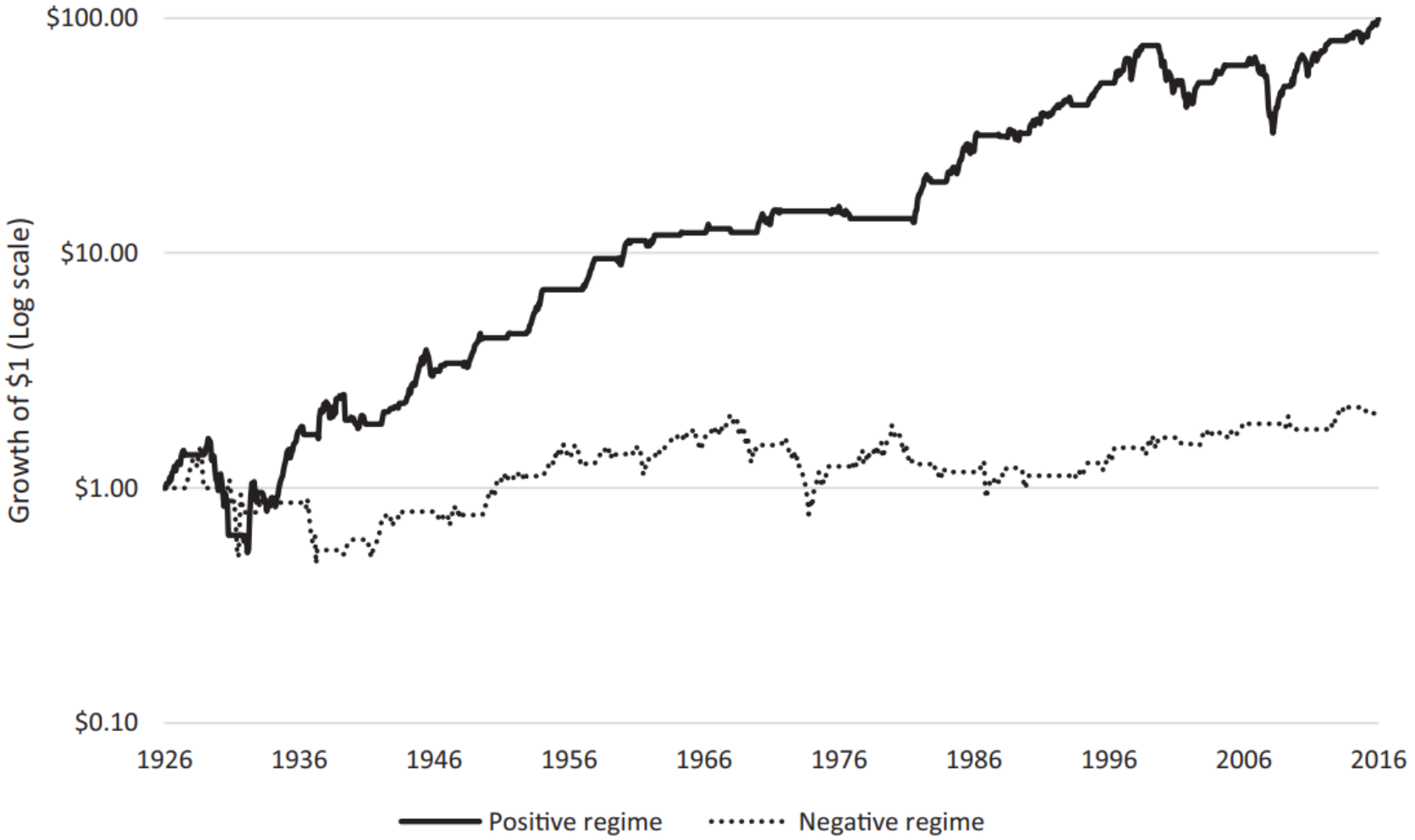

Fig. 2. Cumulative excess equity returns by bond momentum regime. Plotted are the cumulative excess returns from holding the CRSP value-weighted index during positive or negative bond momentum regimes and otherwise holding the risk-free asset. Month t belongs to a positive (negative) regime if the $t-12$ to $t-1$ cumulative change in the long-term Treasury yield was negative (positive). The sample period is Dec-1926 to Dec-2016. Before Apr-1953, the long-term Treasury yield is from Federal Reserve Board (1976a, 1976b). From Apr-1953, it is the ten-year constant maturity Treasury yield.

- in Figs. 1 and 2 we illustrate the time series momentum and cross-asset time series momentum phenomena in the US equity market.
- Fig. 1 we plot the cumulative excess returns of a portfolio that is long in CRSP value-weighted index only in positive (negative) equity momentum regimes, which we define as months for which the previous 12-month equity return was positive (negative).
- In Fig. 2, we do the same for positive (negative) bond momentum regimes; that is, months for which the previous 12-month change in the long-term Treasury yield was negative (positive).

Main issues

- To understand the economics behind this time series predictability of bond and equity market returns,
- We study the relations between past bond and equity returns, future bond and equity demand, and monetary policy.
- We use data on bond and equity mutual fund flows, margin debt, and stock repurchases to show that past 12-month bond and equity returns predict future changes in bond and equity demand in a manner.

Results

- We find that capital moves particularly slowly across asset classes, creating long-term predictability in securities market flows and returns.
- We thus show that time series momentum and cross-asset time series momentum are not just financial market phenomena; they also contain information about fundamental changes in economy activity.

5. Economic momentum and currency returns

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b *Centre for Economic Policy Research (CEPR), London, UK*
c *Lynx Asset Management, Sweden)*

Abstract

背景

economic activity and inflation

linked to

Past trends in fundamentals

predict

currency returns

结论

goes long currencies with strong economic momentum(做多)

short currencies with weak economic momentum(做空)

trading strategy

annualized Sharpe ratio of 0.70

a significant alpha

启示

economic momentum strategy subsumes the alpha of carry trades

differences in past economic trends capture cross-country differences in carry(利差)

Motivation

- 现象： Present-value models suggest that the exchange rate can be written as a function of current and expected fundamentals.
- 已有文献：macro fundamentals have problems predicting exchange rates out of sample.
- 本文: macro fundamentals do predict currency returns.

Main issues

We construct country-level indices of economic activity and inflation through an equal-weighted average of growth rates in the underlying fundamental variables.

The economic activity indices are comprised of growth rates in industrial production, retail sales, and the inverse of unemployment.

The inflation indices build on growth rates in consumer and producer price indices.

Increases in these indices are associated with positive economic momentum.

We measure economic trends in the form of log changes in each index for lookback periods of 1–60 months.

We form dollar-neutral trading strategies for each index and lookback period and for a combination of trends.

The cross-section of past economic trends significantly predicts excess returns up to a horizon of 12 months.

Long-term trends in fundamentals also most strongly capture the carry trade alpha.

6. Monetary stimulus and bank lending

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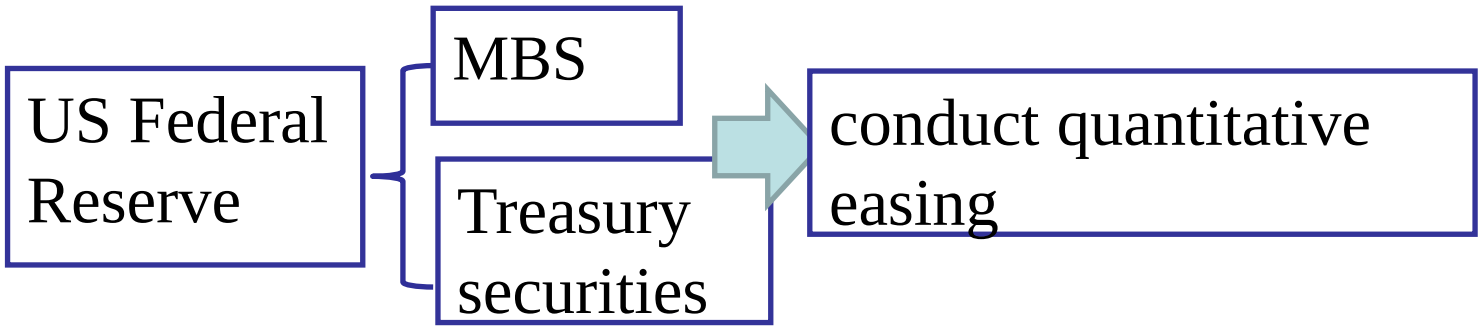
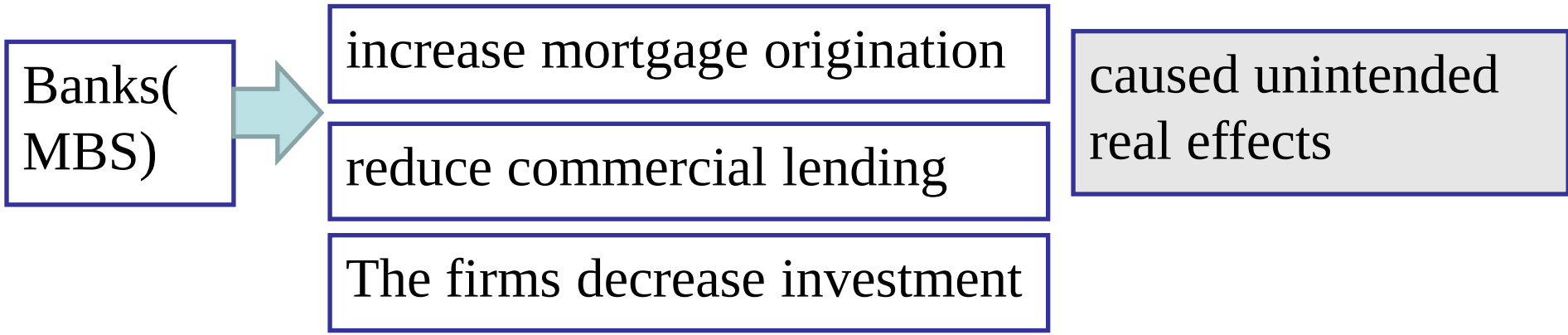
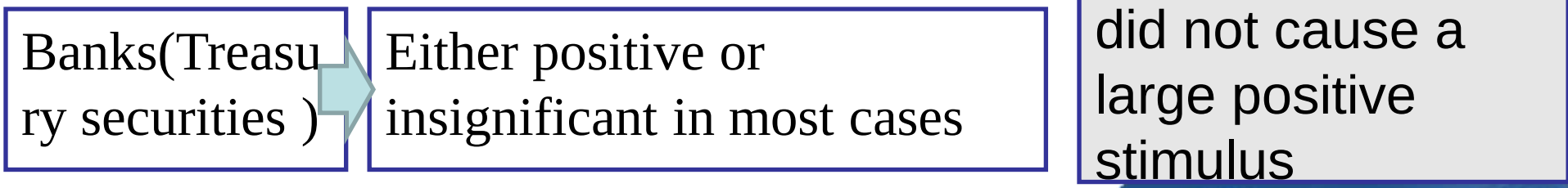
Abstract


US Federal Reserve
MBS
Treasury securities
conduct quantitative easing


Banks(MBS)
increase mortgage origination
reduce commercial lending
The firms decrease investment
caused unintended real effects


Banks(Treasury securities)
Either positive or insignificant in most cases
did not cause a large positive stimulus

Motivation

financial crisis and recession → conduct → unconventional monetary policy → revive their economies

unconventional monetary policy → Quantitative easing (QE)

Quantitative easing (QE) ← purchase financial assets such as Treasuries or mortgage-backed securities (MBS)

Quantitative easing (QE) → hoping to reduce yields, boost lending, and stimulate economic activities

Banks and their lending decisions are thought to play a key role in the transmission mechanism.

Help; no effect; negative effect(inflating bubbles and distorting the allocation of resources)

Identifying the effect of QE is difficult

Main work

- We use two measures to capture the exposure of banks to these MBS purchases and the underlying mechanisms:
- (1) the amount of MBS holdings on the banks' balance sheet and
- (2) those high-MBS banks that actively securitize other assets.
- We analyze the behavior of banks after rounds of asset purchases and compare it with that of banks that were expected to be less affected by these two components within the bank lending channel.（DID）

Results

- We find that banks that benefit from MBS asset purchases increase mortgage lending, reduce commercial lending.
- Firms that borrow from these banks decrease investment as a result.
- Treasury purchases do not lead to the same response.
- A separate finding is that the positive impact of Treasury purchases during quantitative easing through the bank lending channel on private investment seems to be small.

7. Real effects of workers' financial distress: Evidence from teacher spillovers

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(a *Goizueta Business School, Emory University, USA*
b *Boston College, Carroll School of Management, USA*)

Abstract

背景

financial distress —affect→ workers' productivity

Data: the public school system in Texas

结论

a declaration of bankruptcy by one teacher in the grade → the student passing rate decreases by 1.2%

The effect of financial distress increases with the complexity of the task.

启示

worker financial distress —feed back→ local economic conditions

contribute to the understanding of the propagation, and potential amplification, of shocks through a local economy.

Motivation

What are the real consequences of household financial distress?

- Recent literature:

---in the context of labor outcomes (Mian et al., 2013; Mian and Sufi, 2014)

---from the demand side,

---reduced consumption on unemployment

- Overlook:

---the supply-side aspects of labor

---The productivity of labor

- This paper: How financial distress(personal bankruptcy) affect workers' output

Main work

- It is challenging to isolate the effect of workers' financial distress in the traditional setting of a firm.
- financial distress of workers---decreased productivity---firm underperformance
- firm underperformance---a deterioration of employment prospects---financial distress of workers
- Public school teachers setting offers the unique feature of remarkably stable employment prospects.
- Thus alleviating concerns that firm underperformance contributes to worker bankruptcy.

- Workers' productivity ----measuring by standardized test scores of students. (对不同时间、不同员工的相同任务的生产率的衡量)
- One concern is that a teacher's financial situation could correlate with the financial situation of his or her student's parents---control for the total bankruptcy activity in the ZIP code of the campus
- concerns that teacher performance is being driven by health related shocks---control for individuals medical expense，divorce

8. Stress tests and small business lending

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Elena Loutskina d, Philip E. Strahan e,

*(*a *University of New South Wales, Australia*
b *University of Illinois at Chicago, United States*
c *Board of Governors of the Federal Reserve System, USA*
d *University of Virginia, United States*
e *Boston College & NBER, United States)*

Abstract

背景

stress tests → altered → banks' credit supply → To small business

reallocate credit away from riskier markets and toward safer ones.

结论

raise interest rates on small loans

high-risk markets

- no branches → Quantities fall most
- have branches → prices rise

启示

stress-test

- increase in capital requirements
- exit where they do not
- do not reduce aggregate credit

Motivation

- What explains the slow recovery in small business lending?
- One of the most prominent explanations has been increased regulation, including stress testing.
- Prior literature: banks facing regulatory capital constraints cut their lending supply, stress tests create a direct link from bank lending risk to capital
- This paper: stress tests lead to a decrease in affected banks' small business credit supply.
- Our evidence does not support the notion that stress tests contributed to slower recovery of small business lending.

- Stress tests: measure of how much a bank holding company (BHC) might lose during a forward-looking, hypothetical severe economic downturn--- regulatory capital.
- 压力测试为银行控股公司(BHC)在一场前瞻性的、假想的严重经济衰退中可能遭受的损失提供了一种综合衡量，然后将其转化为对各种压力情景下监管资本比率的预测。

9. The term structure of liquidity provision

Jennifer Conrad a, Sunil Wahal b,

*(*a *Kenan-Flagler Business School, University of North Carolina ,United States*
b *WP Carey School of Business, Arizona State University, United States)*

Abstract

内容

Following each trade in all common stocks

examine

Realized spreads

Price impact

in clock and trade time

结论

realized spreads is sharply downward sloping

price impact is sharply upward sloping

启示

market maker profitability is sensitive to speed

the choice of the horizon of measurement is critical when drawing inferences from spread decompositions

结论

The majority of the price impact of trades in large (small)-capitalization stocks takes place within 15 (60) seconds

Net profits to liquidity provision decline over the sample period

Motivation

- Models of the price formation process:

---inventory effects,

---order-processing costs,

---adverse selection,

---the strategic behavior of market participants,

---competition between liquidity providers

价格形成过程的典型模型包括库存效应、订单处理成本、逆向选择、市场参与者的战略行为和流动性提供者之间的竞争。

- A central tenet of these models, price changes associated with trading contain :
- ---a permanent component attributable to information,
- ---a temporary component associated with liquidity provision which generates reversals in transaction prices
- 这些模型的核心原则是，与交易相关的价格变化包含一个可归因于信息的永久性成分，以及一个与流动性供应相关的临时性成分，后者可产生交易价格的逆转。

The standard microstructure approach is to decompose the effective spread:

- the effective spread= transaction price- fundamental value
- --**price impact:** as the change in the fundamental value of the security following the trade.交易的价格影响，以交易后证券基本价值的变化来衡量
- --**realized spread:** can be thought of as the residual profit to liquidity providers, or the cost of trading for liquidity seekers已实现的价差，可以认为是流动性提供者的剩余利润，或者相当于流动性寻求者的交易成本

10. Does size matter? Bailouts with large and small banks

Eduardo Dávila a,∗, Ansgar Walther b

*(*a *Department of Economics, Yale University, United States*
b *Imperial College London, London, United kingdom)*

Abstract

内容

explore how large and small banks → make funding decisions when system-wide bailouts are possible

结论

bank size is a key determinant of banks' leverage choices

Large banks leverage more than small banks

this effect is amplified by strategic spillovers to small banks

启示

The presence of large banks makes bailouts more likely

The optimal regulation features size-dependent policies that disproportionately restrict large banks' leverage

Motivation

differential treatment of large financial institutions → drawn substantial interest

financial regulatory discussions

Several regulatory measures → have singled out large banks as subjects of increased scrutiny

the US banking industry has become increasingly concentrated. → Concerns about too-big-to-fail banks

the consolidation wave ← coincided with → financial regulation

It is difficult to tell empirically whether bank size has had an independent effect on banks' behavior.

Main work

- In this paper, we formally study the effects of bank size on banks' funding decisions and ultimately on system-wide risk.
- We investigate the strategic effects of bank size in an environment with systemic bailouts.
- We seek to understand whether the current levels of bank concentration have consequences for aggregate banking stability.
- Whether regulators directly need to address bank concentration per se, or whether size-independent regulations that apply to all banks are sufficient.

11. Does protectionist anti-takeover legislation lead to managerial entrenchment?

Marc Frattaroli

(Swiss Finance Institute and Ecole Polytechnique Fédérale de Lausanne)

Abstract

内容

a protectionist anti-takeover law

Firm and shareholders

introduced in 2014

Decreasing becoming the target of a M&A

a negative impact on shareholder value

结论

There is no evidence that management altered firm policies in its interest.

Investment, employment, wages, profitability, and capital structure remain unchanged

CEO compensation consisting of equity instruments increased by 8.4%

启示

suggesting that boards reacted to the loss in monitoring by the takeover market by increasing the pay-for-performance sensitivity.

Motivation

Governments → have intervened → cross-border mergers and acquisitions (M&A) citing national security concerns

it is important to ask if and to what extent protectionist interventions affect companies and their shareholders

The prior literature: the connection between managerial entrenchment and antitakeover legislation.

it is unclear whether its results should apply to today's protectionist interventions.

protectionist anti-takeover legislation → leads to → managerial entrenchment based on the *Alstom Decree* 2014

Main issues

protectionist anti-takeover legislation

Alstom Decree as a quasi-natural experiment

- firms' investment
- employment policies
- operating performance
- capital structure
- cash distributions to shareholders
- executive compensation

The Alstom Decree designates the five industry sectors energy, water supply, transportation, electronic communications, and public health, which together account for around 30% of all publicly traded French firms, as strategic to the country's interest and enables the secretary of commerce to veto M&A transactions targeting companies operating in them if the bidder originates from abroad.

12. OTC premia

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(a *Fulcrum Asset Management, United Kingdom*
b *University of St Gallen and Swiss Finance Institute, Switzerland*
c *Bank of England, United Kingdom*)

Abstract

内容

Using unique data at transaction and identity levels → provide the first systematic study of interest rate swaps of OTC

结论

substantial and persistent heterogeneity in derivative prices → consistent with → with a pass-through of regulatory costs on to market prices via so-called valuation adjustments

if the contract is not cleared via a central counterparty → A client pays a higher price to buy interest rate protection from a dealer

结论

This OTC premium decreases by posting initial margins and with higher buyer's creditworthiness

OTC premia are absent for dealers suggesting bargaining power

- Using unique data at transaction and identity levels, we provide the first systematic study of interest rate swaps traded over the counter (OTC).
- We find substantial and persistent heterogeneity in derivative prices consistent with a pass-through of regulatory costs on to market prices via so-called valuation adjustments (XVA).
- A client pays a higher price to buy interest rate protection from a dealer (i.e., the client pays a higher fixed rate) if the contract is not cleared via a central counterparty.
- This OTC premium decreases by posting initial margins and with higher buyer's creditworthiness.
- OTC premia are absent for dealers suggesting bargaining power.

13. Why do option returns change sign from day to night?

Dmitriy Muravyev a,b,∗, Xuechuan (Charles) Ni a,c

(a *Boston College, Carroll School of Management, United States*
b *Michigan State University, Eli Broad Graduate School of Management*
c *China Southern Asset Management, China*)

Abstract

- Average delta hedged returns for Standard & Poor's 500 index options are large: -0.7% per day.
- When we decompose these option returns into intraday and overnight components, average close-to-open returns are -1% per day and open-to-close returns are positive, 0.3%.
- A similar return pattern holds for all maturity and moneyness categories and equity options.
- These positive intraday returns are particularly difficult to explain.
- However, our results are consistent with option prices' failing to account for the well-known fact that stock volatility is substantially higher intraday than overnight.
- These findings help explain price formation in the options market.