LIA KUMLIN • M.SC (ECON) • MCKINSEY & COMPANY

VESA PUTTONEN • PH.D., PROFESSOR • HELSINKI SCHOOL OF ECONOMICS

Does portfolio manager ownership affect fund performance? Finnish evidence

By using a unique dataset of Finnish mutual funds and fund managers, we investigate whether manager ownership is related to fund performance. Khorana, Servaes and Wedge (2007) studied 1,406 U.S. mutual funds and found that future risk-adjusted performance is positively related to managerial ownership. Since the findings of Khorana et al reached the public, the conversation has remained active. We provide further evidence on fund manager ownership and fund performance using Finnish data from years 2003–2005.

Only 31% of all managers hold any ownership stakes in the funds they run. In other words, the median manager does not have any personal investment in his fund. The average ownership stakes are modest; the average manager holds € 5.179 worth of shares in his fund, which in turn translates to 0.05% of the fund's size. When ownership is expressed as a percentage of the manager's taxable wealth, the average manager has invested below two (1.91) percent of his wealth in the fund he runs, or when expressed as a percentage of his taxable annual employment income, below six (5.97) percent.

When we examine manager ownership measured as a percentage of the fund's total assets, we find no relation between ownership and performance. This finding contradicts with US evidence. Further, when we employ ownership measured as a percentage of the manager's taxable wealth, higher managerial ownership is associated with inferior, not superior fund performance. Fund managers invest in riskier funds but this does not pay off since higher risks are not compensated by higher returns. Our findings suggest that the US findings cannot necessarily be generalized to other markets. ■