

## **AGENCY CONFLICTS IN DELEGATED PORTFOLIO MANAGEMENT: EVIDENCE FROM NAMESAKE MUTUAL FUNDS**

Stephen P. Ferris and Xuemin (Sterling) Yan  
*University of Missouri–Columbia*

### **Abstract**

Namesake funds provide a unique sample for studying the two agency conflicts that exist within a mutual fund. The first is between the fund management company and fund shareholders, and the second is between the fund management company and the fund manager. A typical namesake fund manager sits on his or her fund's board, frequently as the chairman, is the majority owner of the fund management company, and has significant investments in the fund he or she manages. Our results indicate that namesake funds charge higher fees, suggesting that the boards of namesake funds are less effective. We find that namesake funds are more tax efficient, consistent with the idea that managerial ownership helps align the interests of managers with those of shareholders. Because of fewer career concerns, namesake fund managers herd less while assuming greater unsystematic risk. We find weak evidence that namesake fund managers outperform their benchmarks and peers. Finally, we observe that namesake funds attract higher levels of investor cash flow.

*JEL Classification:* G23, G34

### **I. Introduction**

There are two sets of agency conflict present within a mutual fund that account for many of the problems currently challenging the industry. The first is the conflict between fund shareholders, who desire high after-tax returns at low cost, and the fund management company, which is interested in maximizing the level of assets under management and the associated management fees (Mahoney 2004). The second is the conflict between the fund management company and the fund manager, and it occurs because of career concerns by fund managers that might incent them to make investment decisions inconsistent with shareholder wealth maximization

---

We thank W. D. Allen, John Howe, Jayant Kale (the editor), Mike Sykuta, John Zimmerman, George Wood, Lu Zheng (the referee), and seminar participants at the Contracting and Organizations Research Institute (CORI) of University of Missouri–Columbia for helpful comments. All remaining errors are ours.

(Chevalier and Ellison 1999). This second conflict is more subtle and, consequently, has received less attention from academics and regulators.<sup>1</sup>

In this study we examine the nature and effect of these two agency conflicts by using a mutual fund possessing a special characteristic: the fund shares its name with its manager. Such funds are called namesake funds. An example of a namesake fund is that of Baron Asset fund, whose portfolio manager is Ronald Baron, chairman and CEO of Baron Capital Inc. We select namesake funds for our analysis because the nature of namesake funds allows a unique examination of the board structure and managerial ownership effects that shape the two agency conflicts present in mutual funds.

Unlike most other mutual funds, the portfolio manager of a namesake fund is almost always a director of the fund and in many cases, serves as the board chairman. Indeed, for our sample of namesake funds, more than 98% of the portfolio managers serve as fund directors and 73% chair the board. This phenomenon is comparable to the duality described in the corporate governance literature (Jensen 1993; Baliga, Moyer, and Rao 1996). This practice of the portfolio manager simultaneously serving as the board chairman provides the individual with an unusual ability to dominate the fund's investment and strategic decisions, and makes it difficult for the board to effectively monitor the manager.

A typical namesake fund manager has significant ownership interests in both the fund he manages and the fund management company he works for.<sup>2</sup> Prior studies of corporate managers suggest that managerial ownership helps align the interests of managers with those of shareholders (Morck, Shleifer, and Vishny 1988; McConnell and Servaes 1990). Thus, we expect the conflict between the fund management company and fund shareholders to be ameliorated by the namesake fund manager's ownership in the fund.

The second ownership interest held by the portfolio manager is in the fund management company. Unlike other fund managers, a typical namesake manager holds a majority interest in the fund management company. This ownership interest in the fund management company shifts the namesake manager's interest away from that of shareholders because his or her ownership in the fund company is usually much larger than that in the fund he or she manages. The disparity in the size of the

---

<sup>1</sup>Although there is a third agency conflict that occurs between the fund manager and fund shareholders, its effect is captured with our analysis of the two conflicts noted in the text. This is because the agency relation between fund managers and fund shareholders is similar to that between the fund management company and fund shareholders while simultaneously being influenced by the fund manager and fund management company relationship. Consequently, we do not provide a separate analysis of the agency conflict between fund manager and fund shareholders.

<sup>2</sup>Complementing the fund manager's direct ownership in the fund is his or her intangible ownership. Namesake fund managers have significant reputational capital at risk because their names are directly associated with the fund. This combination of tangible and intangible ownership interests in the fund can help align the interests of the fund managers with those of shareholders.

namesake fund manager's investments in the management company and the fund produces a conflict of interest with the fund shareholders.

Fund managers are employed by the fund management company and, consequently, are subject to career concerns. Chevalier and Ellison (1999) show that career concerns of younger portfolio managers cause them to be more risk averse in selecting their fund's portfolios. In particular, younger managers tend to assume lower levels of unsystematic risk and deviate less from typical behavior than their older counterparts. In contrast, namesake fund managers have few career concerns. They are their own bosses and cannot easily be terminated from their positions. Almost 80% of these managers are the founders of the fund companies, and nearly all of them are CEOs or chief investment officers (CIOs) of the fund management company. Because the agency conflict between the portfolio manager and the fund management company is nominal among namesake funds, it allows for a more powerful test of the implications resulting from career concerns by portfolio managers.

The two agency conflicts manifest themselves in a variety of the fund's characteristics and operations. We examine how agency conflicts affect the fund fees, tax efficiency, herding behavior, risk levels, return performance, and new investor cash flows of 233 namesake funds from 1984 to 2004. More specifically, we test five empirical hypotheses.

First, because namesake fund managers exert a strong influence on the fund board and possess a relatively large ownership interest in the fund management company, we hypothesize that, everything else being equal, namesake funds charge higher fees than nonnamesake funds (Tufano and Sevick 1997; Del Guercio, Dann, and Partch 2003). Second, we hypothesize that namesake funds are more tax efficient because namesake fund managers typically have significant amounts of their own capital invested in these funds. Third, because namesake fund managers have fewer career concerns, we hypothesize that they assume greater levels of unsystematic risk and herd less than other managers. Fourth, because of namesake fund managers' significant ownership in the fund and reduced career concerns, we hypothesize that namesake funds outperform other funds. However, we expect this outperformance to be modest at best because namesake fund managers are monitored less effectively. Fifth, because the managers of namesake funds typically have a history of success as analysts and portfolio managers, we hypothesize that namesake funds attract higher levels of investor cash flows.

Our empirical results provide strong support for these five hypotheses. First, we find that after controlling for various fund characteristics including fund size, the expense ratios of namesake funds are, on average, 12–15 basis points higher than a matched sample of nonnamesake funds. This result is consistent with the argument that boards of namesake funds are less effective in protecting the interest of fund shareholders. Second, we find strong evidence that namesake funds enjoy greater tax efficiency than other equity funds, consistent with the

idea that managerial ownership helps align the interests of managers with those of shareholders. Third, we determine that the managers of namesake funds herd less and assume higher levels of unsystematic risk than other fund managers. This result is consistent with the idea that namesake managers, who are their own bosses, have fewer concerns about their career progression. Fourth, we find that namesake funds outperform matched mutual funds by about 6–9 basis points per month. However, this magnitude is statistically insignificant. Fifth, we find strong evidence that namesake funds attract higher levels of cash flow. In addition, we find weak evidence that fund investors are more sensitive to past performance of namesake funds.

The high degree of insider ownership of namesake mutual funds, the insider nature of their boards, and the founder-like prestige of the fund manager suggest that namesake funds are similar in nature to industrial firms with family CEOs or family-dominated boards. More important, the business activities, performance, and governance of mutual funds are better defined and much more transparent than that observed for corporations, which helps make our analysis generalizable to closely held industrial firms. That is, this examination of namesake funds contributes to our deeper understanding of both mutual funds and the corporate finance of family or closely held industrial firms.

## **II. Data and Descriptive Statistics**

### *Data and Sample*

Our primary data source for mutual funds is the Center for Research in Security Prices (CRSP) Survivor Bias-Free Mutual Fund Database, with the sample period extending from 1984 to 2004. We begin in 1984 to ensure that there are a sufficient number of namesake funds in our sample. Consistent with many previous studies of mutual funds, we focus on diversified domestic equity funds. In particular, we exclude international funds, sector funds, and balanced funds. We also exclude index funds because they are not actively managed.<sup>3</sup> We use the Investment Company Data Inc. (ICDI) fund objective code available on CRSP to assign each fund one of three investment objectives: aggressive growth (AG), long-term growth (LG), and growth and income (GI).<sup>4</sup>

---

<sup>3</sup>We identify index funds by searching for “index” in fund names.

<sup>4</sup>ICDI investment objectives are available beginning in 1992. For funds that exist both before and after 1992, we backfill their ICDI investment objectives using the first available ICDI objective. For funds that do not survive through 1992, we convert either the Wiesenberger objective code or the Strategic Insight fund objective code (both are available in the CRSP mutual fund database) to a corresponding ICDI investment objective. For example, the Wiesenberger objective code of “G-I” or “I-G” is converted to “growth and income” (GI) in the ICDI investment objective. We note that this conversion is not perfect because it is not always possible to find an exact match between the two investment objective schemes.

We identify namesake funds by comparing fund names and manager names. To construct our sample, we first obtain all funds whose fund name and manager name share at least one word. We then exclude funds where the common word is “investment,” “team,” “capital,” or “management.” To focus on agency issues, we also exclude funds whose managers are subadvisors. The managers of these funds are not employees of the fund companies; rather, they are hired by the fund companies to manage the funds as subcontractors. To ensure accuracy, we hand-check all selected funds. In total, we identify 233 namesake funds. For our sample of namesake funds, we also hand-collect background information about their managers and directors from various sources including fund prospectuses, statements of additional information (Securities and Exchange Commission (SEC) Form 485B), and fund Web sites.

To allow comparative empirical analysis, we construct a set of matched funds for our sample of namesake funds by following an approach similar to Elton, Gruber, and Blake (2003). Specifically, for each namesake fund during each year, we identify four matching nonnamesake funds that satisfy the following criteria: (1) have the same ICDI investment objective, (2) are members of a fund family that has no namesake funds, and (3) are closest to the sample namesake fund in terms of total net assets (TNA).

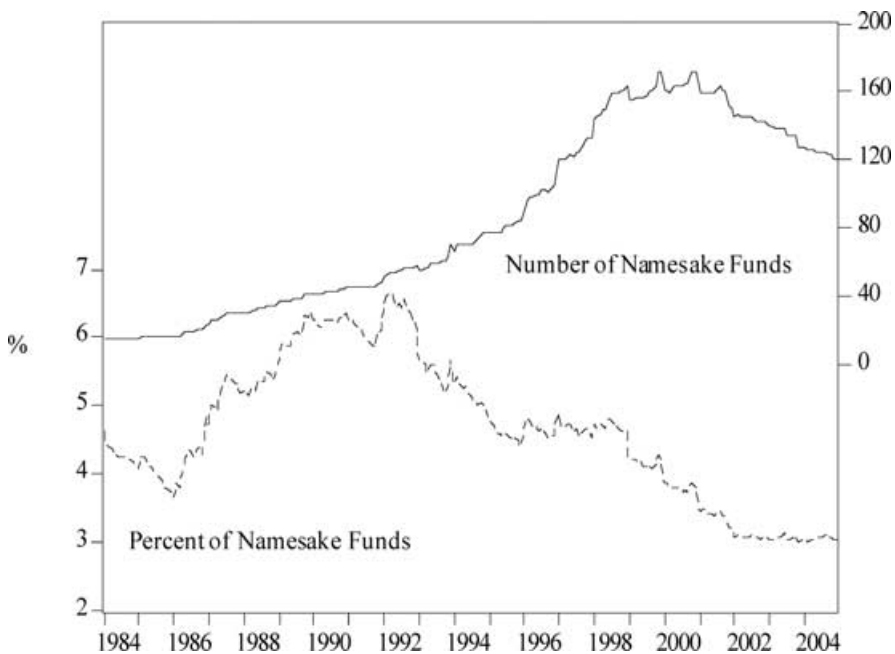
### *Characteristics of Namesake Funds*

Figure I presents the scope of our sample of namesake mutual funds relative to the equity fund industry. From 1984 to 2004, the number of namesake funds increased from 15 to 121. On average, namesake funds represent between 3% and 7% of the total number of equity funds in the fund industry.

Table 1 presents summary statistics regarding a variety of characteristics for the namesake funds and their matched sample. By construction, namesake funds are comparable in size to the matched funds. An average namesake fund has TNA of \$296.04 million; the average matched fund has TNA only marginally smaller at \$290.14 million. Namesake funds reside in smaller fund families. The fund family to which a namesake fund belongs has an average market share (by TNA) of 0.05% compared to a value of 0.98% for the matched funds. The TNA-weighted average turnover rate of namesake funds is 50.54%, which is substantially lower than that of 81.48% for the matched funds.

The average expense ratio of namesake funds is 1.26%, which is 12 basis points greater than that of the matched funds. This difference in expense ratios, however, is not attributable to 12b-1 fees. The average 12b-1 fee of a namesake fund is 27 basis points, 13 basis points lower than that of the matched funds.

There are also important differences in the load fees charged by the namesake funds relative to the matched funds. The average total load charged by namesake funds is 1.17%, which is much lower than the 2.33% charged by the matched



**Figure I. Number of Namesake Funds and Percentage of All Funds That Are Namesake Funds.** The sample period is 1984–2004. The primary data source for mutual funds is the Center for Research in Security Prices (CRSP) Survivor Bias-Free Mutual Fund Database. We include only actively managed diversified domestic equity funds. Specifically, we exclude international funds, sector funds, balanced funds, and index funds. We identify namesake funds by comparing fund names and manager names.

funds. Less than 36% of the namesake funds charge a load fee, whereas more than 57% of the matched funds require a load fee. This suggests an important difference in the distributional channels between namesake funds and the matched funds. Namesake funds are more likely to sell shares directly to investors and the matched funds are more likely to use brokers.

The average tenure for namesake fund managers is 6.58 years, which is 1.8 years longer than that for the managers of the matched funds. But this is not unexpected. Namesake funds are usually family owned and managed; hence, their managers are less likely to leave the fund or lose their jobs. We examine the characteristics of namesake fund managers in greater detail in the following subsection.

Namesake funds hold slightly more cash and less stock than the matched funds. On average, namesake funds hold 8.35% of their assets in cash and 88.95% in stocks, compared to 5.99% in cash and 91.33% in stocks for the matched funds. By construction, the matched funds possess identical investment objectives to those of the sample funds.

**TABLE 1. Average Fund Characteristics.**

| Data Item                           | Namesake Funds | Matched Sample |
|-------------------------------------|----------------|----------------|
| Total net asset (\$ million)        | 296.04         | 290.14         |
| Fund age (years+)                   | 8.10           | 9.00           |
| Turnover (%)                        | 50.54          | 81.48          |
| Expenses (%)                        | 1.26           | 1.14           |
| 12b-1 fee (%)                       | 0.27           | 0.40           |
| Total load (%)                      | 1.17           | 2.33           |
| Funds with load (%)                 | 35.59          | 57.20          |
| Manager tenure (years)              | 6.58           | 4.78           |
| Market share of the fund family (%) | 0.05           | 0.98           |
| Cash holding (%)                    | 8.35           | 5.99           |
| Stock holding (%)                   | 88.95          | 91.33          |
| Aggressive growth fund (%)          | 40.03          | 40.03          |
| Long-term growth fund (%)           | 49.73          | 49.73          |
| Growth and income fund (%)          | 10.24          | 10.24          |

Note: The sample period is 1984–2004. The primary data source for mutual funds is the Center for Research in Security Prices Survivor Bias-Free Mutual Fund Database. We include only actively managed diversified domestic equity funds. Specifically, we exclude international funds, sector funds, balanced funds, and index funds. We use the Investment Company Data Inc. fund objective code and assign each fund one of three investment objectives: aggressive growth (AG), long-term growth (LG), and growth and income (GI). We identify namesake funds by comparing fund names and manager names. For each namesake fund in each year, we identify four matched funds that have the same investment objective, are the closest in total net assets, and are not in the same fund family. Turnover rates and expenses are total net asset-weighted averages; all other variables are simple means.

### *Characteristics of Namesake Fund Managers*

Table 2 presents the characteristics of namesake fund managers. Unlike their counterparts in other equity funds, Panel A shows that nearly all namesake fund managers (97.3%) are directors of the funds that they manage. Furthermore, almost three-fourths of these managers chair their funds' boards of directors. Approximately 80% of the namesake fund managers are also founders of the fund companies. Managers of namesake funds also hold significant ownership in the fund companies, and all of them are the CEO or CIO, or both, of the fund companies.

Almost all of the namesake fund managers have relevant prior experience. Panel B reports that approximately 64% of these managers were formerly portfolio managers. More than 20% were analysts or directors of research in money management firms. Approximately 11% of these managers were formerly vice presidents, managing directors, or CIOs of financial institutions. It is interesting that 2.26% of these managers are former university professors.

Namesake fund managers have sizable investments in their funds and fund families. For example, Panel C shows that 67.96% of these managers invest \$100,000 or more in the funds they manage. Perhaps more revealing, 90.91% of these managers invest \$100,000 or more in their fund family. We collect the

**TABLE 2. Characteristics of Namesake Fund Managers.**

| Panel A. Other Positions Held by Namesake Fund Managers                    |                      |         |                         |                      |            |      |           |
|--|----------------------|---------|-------------------------|----------------------|------------|------|-----------|
| Item   | Percentage           |         |                         |                      |            |      |           |
| Percent of managers also board member of the fund                          | 97.34                |         |                         |                      |            |      |           |
| Percent of managers also chairman of the board                             | 73.10                |         |                         |                      |            |      |           |
| Percent of managers also founder of the investment advisory firm           | 79.66                |         |                         |                      |            |      |           |
| Percent of managers also significant owner of the investment advisory firm | 98.86                |         |                         |                      |            |      |           |
| Percent of managers also CEO or CIO of the investment advisory firm        | 100.00               |         |                         |                      |            |      |           |
| Panel B. Prior Experience of Namesake Fund Managers                        |                      |         |                         |                      |            |      |           |
|  | Portfolio<br>Manager | Analyst | Director of<br>Research | Managing<br>Director | VP         | CIO  | Professor |
| Percentage   | 63.91                | 11.28   | 11.28                   | 5.26                 | 2.26       | 3.76 | 2.26      |
| Panel C. Manager Ownership in Fund and Fund Family                         |                      |         |                         |                      |            |      |           |
|  | Amount               |         |                         |                      |            |      |           |
|  | None                 | >\$0    | >\$10,000               | >\$50,000            | >\$100,000 |      |           |
| Ownership in fund (%)  | 7.77                 | 10.68   | 8.74                    | 4.85                 | 67.96      |      |           |
| Ownership in fund family (%)   | 0.00                 | 1.65    | 4.13                    | 3.31                 | 90.91      |      |           |

Note: The sample funds include only actively managed diversified domestic equity funds. In particular, we exclude international funds, sector funds, balanced funds, and index funds. We identify namesake funds by comparing fund names and manager names. We hand-collect the background information of namesake fund managers from fund Web sites and Securities and Exchange Form 485B for 2001–2004. VP = vice president; CIO = chief investment officer.

preceding ownership information from SEC Form 485B. The SEC requires that funds disclose director investments in the fund and fund family in terms of dollar ranges.

### *Governance Characteristics of Namesake Funds*

The boards of directors for namesake funds lack independence because their managers sit on the boards, often as the chairmen. Consequently, an analysis of these boards is central to our understanding of the agency conflicts that exist within a mutual fund.

Based on a comparative analysis of board attributes for our namesake funds and their matches, we find that the average number of directors in a namesake fund is 6.8. The average board size for the matched firms is larger with 8.2 directors. Approximately two-thirds of the directors for the namesake funds are independent, whereas three-fourths of the directors for the matched funds are independent. The sample and matched funds differ most dramatically on the percentage of funds with independent chairmen. Only 1% of the namesake funds have independent chairmen, whereas 23% of the matched funds report an independent chairman.



### III. Empirical Results

#### *Fund Fees*

The board of directors is central to effective mutual fund governance and control of the agency conflict between the fund and its shareholders. Indeed, the primary responsibility of the board of directors of mutual funds is to protect the interests of fund shareholders and thereby mitigate the agency conflicts that result from the divergent interests of shareholders and the fund. Specifically, the board decides whether to renew the investment advisory contract, votes on fee changes, approves any merger or liquidation, and monitors the specific investments within the portfolio to ensure that the adviser's investments comply with the fund's stated investment objectives. As noted previously, the boards of namesake funds are not independent. Almost all of the namesake fund managers sit on the board, and nearly three-fourths serve as chairman. Because of these characteristics of namesake funds, we hypothesize that their boards are less effective.

We use the level of fund fees to assess the quality of governance for namesake funds. As argued by Tufano and Sevick (1997) and Del Guercio, Dann, and Partch (2003), higher fees reflect less effective fund governance because the investment advisory contract that stipulates fund fees must be renewed annually by the board of directors. Consequently, we hypothesize that namesake funds are more likely to charge higher fees.

Table 3 presents our regression analysis of fund expense ratios while controlling for size and other fund characteristics. Consistent with Tufano and Sevick (1997), we find that larger funds, older funds, and funds from larger families charge lower fees. After controlling for these factors, we still find that namesake funds charge significantly higher fees than other equity funds. Specifically, the coefficient of the namesake fund dummy variable is between 0.122 and 0.146, suggesting that the average expense ratio of namesake funds is approximately 12–15 basis points higher than that of matched funds.<sup>5</sup>

These results for expense ratios provide strong evidence that the insider-dominated boards of namesake funds provide less effective oversight than those of other funds. These results further suggest that independent boards are necessary to control the agency conflict existing between a mutual fund and its shareholders. Our findings are consistent with the SEC's claims that independent mutual fund boards will improve fund governance and thereby benefit shareholders.

---

<sup>5</sup>In unreported regressions, we further examine the fees charged by namesake funds by including board size, percentage of independent directors, and a dummy variable for the presence of an independent chairman as additional regressors. We find that our results remain robust and namesake funds continue to charge higher expense ratios. Estimation of annual cross-sectional regressions of the model contained in Table 3 and subsequent application of the Fama–MacBeth (1973) methodology also verify that our findings are not due to the pooling used in our regression estimation.

TABLE 3. Expense Ratio Analysis for Namesake Funds.

| Intercept           | Log(TNA)             | Namesake            | Log(Age)            | Family Size          | R <sup>2</sup> |
|---------------------|----------------------|---------------------|---------------------|----------------------|----------------|
| 1.984***<br>(0.014) | -0.115***<br>(0.003) | 0.142***<br>(0.019) |                     |                      | 0.14           |
| 1.941***<br>(0.018) | -0.122***<br>(0.004) | 0.146***<br>(0.019) | 0.035***<br>(0.010) |                      | 0.14           |
| 1.950***<br>(0.018) | -0.115***<br>(0.004) | 0.122***<br>(0.019) | 0.031**<br>(0.010)  | -0.026***<br>(0.004) | 0.14           |

Note: The sample period is 1984–2004. The primary data source for mutual funds is the Center for Research in Security Prices Survivor Bias-Free Mutual Fund Database. We include only actively managed diversified domestic equity funds in our sample. In particular, we exclude international funds, sector funds, balanced funds, and index funds. We identify namesake funds by comparing fund names and manager names. For each namesake fund in each year, we identify four matched funds that have the same investment objective, are the closest in total net assets, and are not in the same fund family. We collect the board information from Securities and Exchange Form 485B. Namesake is a dummy variable that equals 1 if the fund is a namesake fund, and 0 otherwise. Family size is the market share of the fund family to which a fund belongs. TNA is total net assets. The dependent variable is fund expense ratio in all regressions. In each regression, the first row reports the ordinary least squares coefficient estimates and the second row reports the White standard errors in parentheses.

\*\*\*Significant at the 1% level.

\*\*Significant at the 5% level.

### Tax Efficiency

Tax planning is an essential element of the investment process and influences the magnitude of the after-tax returns earned by investors. But in mutual funds, shareholders have no control over the timing or size of taxable distributions. Average fund managers have little incentive to improve the fund's tax efficiency because fund managers are typically evaluated based on their funds' pre-tax performance.<sup>6</sup> But because the managers of namesake funds have significant amounts of their own capital at risk, we expect their funds to be more tax efficient than those of other fund managers. Hence, an analysis of this issue will allow us to assess the incentive effects provided by ownership in the fund.

To examine the tax efficiency of mutual funds, we define a fund's total pretax return in the same manner as Bergstresser and Poterba (2002). Specifically, we express a fund's total pretax return as the sum of dividends ( $d$ ), short-term capital gains ( $g_s$ ), long-term capital gains ( $g_l$ ), and undistributed capital gains ( $u$ ):

$$R_p = d + g_s + g_l + u. \quad (1)$$

<sup>6</sup>The SEC now requires funds to disclose after-tax returns based on assumed tax rates. However, the fund industry and media still focus on pre-tax returns.

We define the fund's after tax-return as:

$$R_a = (1 - \tau_d)d + (1 - \tau_d)g_s + (1 - \tau_{cg})g_l + (1 - \tau_{ucg})u. \quad (2)$$

For our analysis, we assume that the marginal tax rate on dividends ( $\tau_d$ ) is 31%, and the marginal tax rate on long term capital gains ( $\tau_{cg}$ ) is 20%. Consistent with SEC policy, we set the tax rate on undistributed capital gains as zero ( $\tau_{ucg} = 0$ ) in calculating the pre-liquidation after-tax returns. Because we only have data on the total capital gain distributions, we assume all capital gains are long-term.<sup>7</sup>

We define tax efficiency as follows:

$$\text{Tax Efficiency} = \begin{cases} R_a/R_p & \text{if } R_a \geq 0 \\ 0 & \text{if } R_a < 0 \text{ and } d + g_s + g_l > 0 \\ 1 & \text{if } R_a < 0 \text{ and } d + g_s + g_l = 0. \end{cases} \quad (3)$$

That is, we define tax efficiency as the ratio between the after-tax return and the pre-tax return when the after-tax return is positive. When the after tax return is negative, the tax efficiency is 1 if the fund does not have any taxable distributions, and 0 otherwise. Based on the preceding definition, tax efficiency is always between 0 and 1, where 1 represents the highest tax efficiency and 0 represents the lowest tax efficiency.

Table 4 presents our results for an analysis of tax efficiency. Panel A presents the equally weighted and TNA-weighted average tax efficiency. Using either measure, we find that namesake funds have significantly higher tax efficiency than the matched funds. For example, using the equally weighted measure, the tax efficiency for namesake funds is 69.46% but only 64.87% for the matched funds. This difference of 4.58% is statistically significant at the 1% level. Results for TNA-weighted averages are qualitatively similar.

To examine whether the difference in the tax efficiency between namesake funds and other equity funds can be explained by other fund characteristics, we present the results from a regression analysis in Panel B. After controlling for fund size, age, and fund family size, we find that namesake funds continue to display higher tax efficiency than other equity funds. The coefficient for the namesake fund dummy variable is approximately 4% in all regressions, similar to the difference between the average tax efficiencies of these two groups of funds. This result suggests that most of the difference in tax efficiency cannot be explained by fund characteristics. We find that older funds are less tax efficient, perhaps because of their large accrued capital gains. Larger funds are more tax efficient, even after

---

<sup>7</sup>Our results are robust to alternative choices of marginal tax rates and alternative ways to separate short-term versus long-term capital gains.

TABLE 4. Tax Efficiency of Namesake Funds.

| Panel A. Summary Statistics         |                     |                     |                      |                                      |                       |
|-------------------------------------|---------------------|---------------------|----------------------|--------------------------------------|-----------------------|
|                                     | Namesake Funds      |                     | Matched Sample       | Difference<br>( <i>t</i> -statistic) |                       |
| Tax efficiency—equally weighted (%) | 69.46               |                     | 64.87                | 4.58***<br>(2.70)                    |                       |
| Tax efficiency—TNA weighted (%)     | 67.38               |                     | 61.31                | 6.07**<br>(2.14)                     |                       |
| Panel B. Regression Analysis        |                     |                     |                      |                                      |                       |
| Intercept                           | Log(TNA)            | Namesake            | Log(Age)             | Fund Family<br>Market Share          | <i>R</i> <sup>2</sup> |
| 66.884***<br>(0.849)                | 0.147<br>(0.197)    | 4.413***<br>(1.157) |                      |                                      | 0.01                  |
| 71.086***<br>(1.117)                | 0.794***<br>(0.227) | 3.987***<br>(1.158) | −3.517***<br>(0.609) |                                      | 0.01                  |
| 71.072***<br>(1.132)                | 0.616**<br>(0.234)  | 4.084***<br>(1.179) | −3.222***<br>(0.616) | 0.336<br>(0.248)                     | 0.01                  |

Note: The sample period is 1984–2004. The primary data source for mutual funds is the Center for Research in Security Prices Survivor Bias-Free Mutual Fund Database. We include only actively managed diversified domestic equity funds in our sample. In particular, we exclude international funds, sector funds, balanced funds, and index funds. We identify namesake funds by comparing fund names and manager names. For each namesake fund in each year, we identify four matched funds that have the same investment objective, are the closest in total net assets, and are not in the same fund family. We compute tax efficiency based on equations (2) through (4). Namesake is a dummy variable that equals 1 if the fund is a namesake fund, and 0 otherwise. TNA is total net assets. In Panel B, the dependent variable for all regressions is tax efficiency. In each regression, the first row reports the ordinary least squares coefficient estimates and the second row reports the White standard errors in parentheses.

\*\*\*Significant at the 1% level.

\*\*Significant at the 5% level.

controlling for age. The size of the fund family is positively related to tax efficiency, but this relation is not statistically significant. Unreported regression results using the Fama–MacBeth (1973) method provides further validation of these findings.

### *Career Concerns*

Our sample of namesake funds also allows us to examine the agency conflict that exists between the fund manager and the employing fund management company. This conflict centers around how managerial career concerns influence the portfolio decisions of fund managers. Chevalier and Ellison (1999) analyze how managerial behavior might be affected by a manager's desire to avoid losing his or her job. They show that career concerns of younger portfolio managers cause them to be more risk averse in selecting their fund's portfolios. In particular, younger managers tend to take on lower unsystematic risk and deviate less from the typical behavior than their older counterparts.

In contrast, namesake fund managers have few career concerns. They are their own bosses and cannot easily be terminated from their positions. We show earlier that almost 80% of these managers are the founders of the fund companies, and nearly all of them are CEOs or CIOs, or both, of the fund management company. Because the agency conflict between the portfolio manager and the fund management company is so nominal among namesake funds, such funds serve as a useful benchmark for examining the implications resulting from career concerns by portfolio managers. Consistent with Chevalier and Ellison (1999), we hypothesize that namesake fund managers assume greater unsystematic risk and herd less than other fund managers.

### *Measurement and Methodology*

To estimate unsystematic risk and factor loadings, we estimate the regression of fund returns against Carhart's (1997) four factors, which augment the Fama–French (1973) three factor model with a momentum factor. Specifically, at the start of each year we estimate the following regression model for each fund using data for the past 24 to 36 months, depending on data availability:

$$R_t - r_f = \alpha + \beta_1 MKT_t + \beta_2 SMB_t + \beta_3 HML_t + \beta_4 UMD_t + \varepsilon_t, \quad (4)$$

where  $MKT$  is the market factor,  $SMB$  is the size factor,  $HML$  is the book-to-market factor, and  $UMD$  is the momentum factor.

Following Chevalier and Ellison (1999), we measure unsystematic risk by using the standard deviation of the error term of the regression. Consistent with Chevalier and Ellison, we measure the extent of herding by using the following six deviation measures: return deviation, unsystematic risk deviation, market beta deviation, SMB beta deviation, HML beta deviation, and UMD beta deviation. For example, we calculate return deviation for each fund in each month as the absolute difference between the fund return and the average return for all funds in the same investment objective. We calculate the other deviation measures similarly.

### *Findings for Herding by Namesake Funds*

Table 5 presents our findings regarding the herding behavior by the portfolio managers of namesake funds. We find that namesake funds have significantly higher unsystematic risk. In addition, namesake funds have significantly greater deviations from typical behavior than other equity funds. For example, the average return deviation is 2.33% for namesake funds but only 1.87% for the matched funds. The

TABLE 5. Do Namesake Fund Managers Herd Less?

|   | Namesake Funds | Matched Sample | Difference        |
|---|----------------|----------------|-------------------|
| Average unsystematic risk (%)           | 2.25           | 1.82           | 0.43***<br>(4.83) |
| Average return deviation (%)            | 2.33           | 1.87           | 0.46***<br>(6.15) |
| Average unsystematic risk deviation (%) | 0.86           | 0.57           | 0.30***<br>(5.79) |
| Average market beta deviation           | 0.18           | 0.14           | 0.04<br>(2.42)    |
| Average SMB beta deviation              | 0.22           | 0.23           | -0.00<br>(-0.43)  |
| Average HML beta deviation              | 0.35           | 0.28           | 0.06***<br>(6.88) |
| Average UMD beta deviation              | 0.19           | 0.15           | 0.04***<br>(7.18) |

Note: The sample period is 1984–2004. The primary data source for mutual funds is the Center for Research in Security Prices Survivor Bias-Free Mutual Fund Database. We include only actively managed diversified domestic equity funds in our sample. In particular, we exclude international funds, sector funds, balanced funds, and index funds. We identify namesake funds by comparing fund names and manager names. For each namesake fund in each year, we identify four matched funds that have the same investment objective, are the closest in total net assets, and are not in the same fund family. We obtain unsystematic risk and risk factor loadings using the following procedure. At the start of each year, we estimate regressions of fund returns for the four factors using the previous 36 months of data. The coefficient of the market factor is then the market beta. Size (SMB) beta, book-to-market (HML) beta, and momentum (UMD) beta are defined similarly. The root mean squared error is our measure of unsystematic risk. The numbers in parentheses are *t*-statistics.

\*\*\* Significant at the 1% level.

average unsystematic risk deviation is 0.86% for namesake funds but only 0.57% for the matched funds. The differences are generally statistically significant.

Overall, our results are consistent with the proposition that namesake funds have fewer career concerns and hence assume more unsystematic risk and herd less. These findings suggest that the agency conflict between the fund and fund manager is less acute for namesake funds than for other funds.

### *Fund Performance*

In this section we examine the extent to which the agency conflicts inherent in a mutual fund affect firm performance. In this sense, we answer the question: Do these agency conflicts affect shareholder value? We use both raw and risk-adjusted returns to determine how the return performance of namesake funds differs from those of other equity funds.

We expect namesake funds to outperform because of both their ownership in the fund and reduced career concerns. In particular, prior studies of corporate managers suggest that managerial ownership helps align the interests of managers

with those of shareholders (Morck, Shleifer, and Vishny 1988; McConnell and Servaes 1990). We expect this overperformance to be modest, however, because namesake fund managers are also monitored less effectively by the fund's board.

### Raw Return Performance

In Panel A of Table 6 we compare the raw returns of namesake funds with those of other equity funds. We analyze both the net and gross raw return to namesake funds. Net return represents after-expense return and is contained in the CRSP mutual fund database. We calculate gross return by adding back the expenses to net returns. We calculate excess returns by subtracting the value-weighted market returns from net or gross returns. Panel A contains the time-series average gross excess returns and net excess returns of TNA-weighted portfolios.

**TABLE 6. Performance of Namesake Funds.**

| Panel A. Mean Returns  |                  |                   |                     |
|--|------------------|-------------------|---------------------|
|  | Namesake Funds   | Matched Sample    | Difference          |
| Gross excess return—basis point                                      | 3.37<br>(0.48)   | −3.81<br>(−0.64)  | 7.19<br>(0.87)      |
| Net excess return—basis point  | −6.99<br>(−0.99) | −12.80<br>(−2.15) | 5.81<br>(0.70)      |
| Panel B. Abnormal Returns and Factor Loadings – Portfolio Regression |                  |                   |                     |
|  | Namesake Funds   | Matched Sample    | Difference          |
| Alpha—basis point  | −2.58<br>(−0.45) | −11.70<br>(−2.51) | 9.17<br>(1.45)      |
| Market beta  | 0.90<br>(63.09)  | 1.01<br>(87.18)   | −0.11***<br>(−7.23) |
| SMB beta   | 0.18<br>(10.11)  | 0.12<br>(8.29)    | 0.06***<br>(3.05)   |
| HML beta   | 0.09<br>(4.27)   | −0.10<br>(−5.60)  | 0.19***<br>(8.04)   |
| UMD beta   | −0.02<br>(−1.41) | 0.02<br>(1.43)    | −0.04***<br>(−2.32) |
| Adj. $R^2$   | 0.96             | 0.98              | 0.49                |

Note: The sample period is 1984–2004. The primary data source for mutual funds is the Center for Research in Security Prices Survivor Bias-Free Mutual Fund Database. We include only actively managed diversified domestic equity funds in our sample. In particular, we exclude international funds, sector funds, balanced funds, and index funds. We identify namesake funds by comparing fund names and manager names. For each namesake fund in each year, we identify four matched funds that have the same investment objective, are the closest in total net assets, and are not in the same fund family. We employ a four-factor asset pricing model in Panel B. The four factors are market factor, size factor (SMB), book-to-market factor (HML), and momentum factor (UMD). Alpha is the intercept of the regression of fund (portfolio) returns on these factors. In Panel B, we employ a portfolio regression approach. The numbers in parentheses are  $t$ -statistics.

\*\*\*Significant at the 1% level.

The average gross excess return of namesake funds is 3.37 basis points per month compared to  $-3.81$  basis points for the matched funds. The difference, however, is not statistically significant. The mean net excess return for the namesake funds is  $-6.99$  basis points, and the corresponding value for the matched firms is  $-12.80$ . Again, these returns do not significantly differ from each other. These results showing that namesake funds as well as their matches underperform the market by approximately the magnitude of expenses are consistent with previous studies. For example, Chen et al. (2004) report a gross return of 1 basis point and net return of  $-8$  basis points for equity funds during 1962–1999.

#### *Risk-Adjusted Return Performance*

In the preceding section we examine fund excess returns as a measure of fund performance. But it is possible that namesake fund portfolios have risks different from those of their matches. To account for this possibility, we evaluate fund performance by using alpha, the intercept term in the regression of fund returns on risk factors. We emphasize use of the Carhart (1997) four-factor model. We also use the capital asset pricing model (CAPM) and the Fama–French (1973) three-factor model and find that they produce similar results.

Our regression model is as follows:

$$R_{p,t} - r_f = \alpha + \beta_1 MKT_t + \beta_2 SMB_t + \beta_3 HML_t + \beta_4 UMD_t + \varepsilon_t, \quad (5)$$

where the independent variables are identical to those described for equation (1). We employ the portfolio regression approach. Specifically, we compute the monthly TNA-weighted return of the namesake fund portfolio and then use it as the dependent variable in equation (5). Note that the above regression model is the same as equation (1) except that equation (1) is estimated at the fund level.

Panel B of Table 6 presents our results. We find that the portfolio of namesake funds has an alpha of  $-2.58$  basis points per month and underperforms the benchmark. It outperforms the portfolio of matched funds, which has an alpha of  $-11.70$  basis points. The difference, however, is not statistically significant.

Namesake funds exhibit different factor loadings from the matched funds. Namesake funds have a lower market beta than the matched funds (0.9 vs. 1.01), consistent with our previous finding that namesake funds hold more cash than other equity funds. Additionally, namesake funds tend to invest more in small stocks, as reflected in their significantly higher SMB beta. Namesake funds load slightly more on value stocks than do the matched funds. Namesake funds also have a lower momentum beta, suggesting that they do not chase returns as much as their matched funds. Overall, we find little evidence that namesake funds outperform the market or a set of matched funds. This evidence is in contrast to the result of an industry study of 16 namesake funds provided by Glassman.<sup>8</sup> He reports superior

---

<sup>8</sup>Glassman, J., When fund and manager share a name, *Washington Post*, January 19, 2003, pp. H1, H5.



performance by namesake funds, but his sample suffers from a survivor bias as only surviving and successful namesake funds are included.

### *Investor Cash Flows*

It is possible that namesake funds are able to use their managers' names as a marketing device to attract new investor cash flow because many of these namesake fund managers are star managers. Consequently, we hypothesize that namesake funds attract greater investor cash flows because of the "star power" of their managers.

To test the ability of namesake funds to attract new cash flow, we compute annual fund flow as follows:

$$Fund\ Flow_t = \frac{TNA_{t+1} - TNA_t(1 + R_t) - MGTNA_t}{TNA_t}, \quad (6)$$

where  $TNA$  is the fund's total net assets,  $R$  is the return earned by the fund's assets, and  $MGTNA$  is the total net assets acquired from mergers during the period. This calculation assumes that fund flows occur at the end of the year. Alternative assumptions about the timing of the fund flow do not affect our results.

Consistent with previous researchers such as Sirri and Tufano (1998), we control for past returns, fund size, expenses, and 12b-1 fees in our analysis of fund flow. To examine the flow-performance relation, we sort all funds based on their past one-year returns and then form five quintiles. Quintile 1 contains the worst performing funds and quintile 5 contains the best performing funds.

Panel A of Table 7 presents the regression results. Fund flow is positively related to past performance. This is demonstrated by the significant, positive coefficients on the dummy variables for quintiles 3 through 5. Furthermore, within each model, these coefficients increase in magnitude as we move from quintile 2 to quintile 5. Consistent with prior studies (e.g., Chevalier and Ellison 1997), we find that the flow-performance relationship is convex. For instance, in model 1, we find that an average fund in the fourth return quintile attracts 6.6% (16.5% minus 9.9%) more cash flow than an average fund in quintile 3. However, an average fund in quintile 5 generates 20.6% (37.1% minus 16.5%) more cash flow than an average fund in quintile 4. In other words, the fund attracts more flow by moving from quintile 4 to quintile 5 than from quintile 3 to quintile 4.

Consistent with Barber, Odean, and Zheng (2005), we find that fund cash flows are positively related to 12b-1 fees. This suggests that advertising is effective in attracting investor cash flows. This is also consistent with the idea that investors pay more attention to direct fees such as loads than less obvious costs such as the 12b-1 fee. We find that larger funds generate lower cash flows, in part because we measure fund flows as percentages of the fund's TNA. Furthermore, funds in larger families attract more cash flows.

More important, we find consistently supportive evidence for the ability of namesake funds to attract more cash flow. In all of the regression specifications, we obtain coefficients for the namesake dummy that are positive and statistically significant at the 1% level. Specifically, the coefficient estimates are between 0.136 and 0.165, suggesting that namesake funds attract between 13.6% and 16.5% more investor cash flows per year than matched sample funds. This result is consistent with the argument that namesake funds are able to exploit the star power of their managers' name and attract new investors to the fund.

Panel B of Table 7 examines the cash-flow sensitivity of namesake funds. In particular, we investigate whether fund flows to namesake funds are more or less sensitive to past performance as compared with other funds. We continue to find that namesake funds attract significantly higher fund flows, although the magnitude of this result is lower than that reported in Panel A. We find strong evidence that fund investors chase past performance. The coefficients on the interaction terms between performance quintiles and past returns are significantly positive. Moreover, we find some evidence that the cash-flow sensitivity is higher for namesake funds, especially among middle-performing funds. Specifically, the coefficient on the interaction term between past returns and the namesake fund dummy is positive

**TABLE 7. Investor Cash Flows of Namesake Funds.**

| Panel A. Namesake Funds and Investor Cash Flows |                      |                      |                      |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | Model 1              | Model 2              | Model 3              | Model 4              |
| Intercept                                       | 0.022<br>(0.024)     | 0.008<br>(0.024)     | 0.096**<br>(0.042)   | -0.021<br>(0.027)    |
| Q2  | 0.002<br>(0.032)     | 0.004<br>(0.032)     | 0.008<br>(0.032)     | 0.012<br>(0.032)     |
| Q3  | 0.099***<br>(0.031)  | 0.100***<br>(0.031)  | 0.106***<br>(0.031)  | 0.110***<br>(0.031)  |
| Q4  | 0.165***<br>(0.031)  | 0.166***<br>(0.031)  | 0.167***<br>(0.031)  | 0.173***<br>(0.031)  |
| Q5  | 0.371***<br>(0.030)  | 0.370***<br>(0.030)  | 0.372***<br>(0.031)  | 0.376***<br>(0.031)  |
| Lagged TNA ( $\times 10^4$ )                    | -0.407***<br>(0.076) | -0.459***<br>(0.078) | -0.480***<br>(0.080) | -0.459***<br>(0.078) |
| Namesake  | 0.136***<br>(0.024)  | 0.151***<br>(0.025)  | 0.165***<br>(0.025)  | 0.159***<br>(0.025)  |
| Family size                                     |                      | 0.015***<br>(0.005)  |                      | 0.015***<br>(0.005)  |
| Expenses  |                      |                      | -0.085***<br>(0.027) |                      |
| 12b-1   |                      |                      | 0.143***<br>(0.036)  | 0.059**<br>(0.025)   |
| Adj. $R^2$                                      | 0.049                | 0.050                | 0.051                | 0.051                |

(Continued)

TABLE 7. Continued.

| Panel B. Namesake Funds and Investor Cash Flow: Performance Sensitivity |                      |                      |                      |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | Model 1              | Model 2              | Model 3              | Model 4              |
| Intercept   | 0.058***<br>(0.016)  | 0.044**<br>(0.018)   | 0.141***<br>(0.037)  | 0.007<br>(0.021)     |
| Q2×lagret   | 0.935**<br>(0.429)   | 0.779*<br>(0.439)    | 0.801*<br>(0.438)    | 0.727*<br>(0.438)    |
| Q3×lagret   | 0.519**<br>(0.244)   | 0.633**<br>(0.253)   | 0.662**<br>(0.253)   | 0.679***<br>(0.253)  |
| Q4×lagret   | 0.527***<br>(0.117)  | 0.586***<br>(0.122)  | 0.578***<br>(0.122)  | 0.595***<br>(0.122)  |
| Q5×lagret   | 0.731***<br>(0.055)  | 0.756***<br>(0.057)  | 0.751***<br>(0.057)  | 0.758***<br>(0.057)  |
| Q2×lagret×Namesake  | −0.794<br>(0.969)    | −0.038<br>(1.064)    | −0.131<br>(1.063)    | −0.031<br>(1.063)    |
| Q3×lagret×Namesake  | 1.289***<br>(0.448)  | 0.689<br>(0.568)     | 0.707<br>(0.567)     | 0.697<br>(0.567)     |
| Q4×lagret×Namesake  | 1.056***<br>(0.252)  | 0.753**<br>(0.307)   | 0.763**<br>(0.307)   | 0.765**<br>(0.307)   |
| Q5×lagret×Namesake  | 0.182**<br>(0.086)   | 0.076<br>(0.106)     | 0.087<br>(0.105)     | 0.074<br>(0.105)     |
| Lagged TNA (×10 <sup>4</sup> )  | −0.379***<br>(0.074) | −0.377***<br>(0.074) | −0.465***<br>(0.078) | −0.426***<br>(0.076) |
| Namesake  |                      | 0.069*<br>(0.040)    | 0.100**<br>(0.040)   | 0.091**<br>(0.040)   |
| Expenses  |                      |                      | −0.102***<br>(0.026) |                      |
| 12b-1   |                      |                      | 0.162***<br>(0.035)  | 0.062**<br>(0.024)   |
| Family size   |                      |                      |                      | 0.014***<br>(0.005)  |
| R <sup>2</sup>  | 0.064                | 0.064                | 0.067                | 0.066                |

Note: The sample period is 1984–2004. The primary data source for mutual funds is the Center for Research in Security Prices Survivor Bias-Free Mutual Fund Database. We include only actively managed diversified domestic equity funds in our sample. In particular, we exclude international funds, sector funds, balanced funds, and index funds. We identify namesake funds by comparing fund names and manager names. For each namesake fund in each year, we identify four matched funds that have the same investment objective, are the closest in total net assets, and are not in the same fund family. We compute fund cash flow using equation (5). The variable lagret is lagged one-year fund return. Namesake is a dummy variable that equals 1 if the fund is a namesake fund, and 0 otherwise. Each year, we group returns into quintiles. TNA is total net assets. Q2 is a dummy variable that equals 1 if the fund return falls in the second lowest quintile last year. Q3 through Q5 are similarly defined. The dependent variable is annual fund cash flow in all regressions. In each regression, the first row reports the ordinary least squares coefficient estimates and the second row reports the White standard errors in parentheses.

\*\*\*Significant at the 1% level.

\*\*Significant at the 5% level.

\*Significant at the 10% level.

and significant for quintile 4, but it is generally insignificant for other performance quintiles. Overall, we find strong evidence that namesake funds attract greater cash flows and only weak evidence that investors are more sensitive to the past performance of namesake funds.

#### **IV. Conclusions**

We argue in this study that the scandals currently plaguing the mutual fund industry are symptomatic of the two agency conflicts that exist within the mutual fund industry. Our sample of namesake funds represents a unique laboratory for studying these agency conflicts. They allow us to examine the widely publicized conflict that exists between the fund management company and fund shareholders as well as the less prominent conflict that exists between the fund management company and the fund managers. Furthermore, because these funds are characterized by insider-dominated boards, they enable us to test the usefulness of the recently adopted rules requiring independent boards and chairs for mutual funds.

Our results suggest that the boards of namesake funds are ineffective and that agency conflict between fund shareholders and the fund management company is not mitigated with the oversight provided by an insider-dominated board. We find that the average expense ratio for a namesake fund is 12–15 basis points higher than those of other equity funds. We also find that namesake funds are more tax efficient, consistent with the idea that managerial ownership helps align the interests of managers with those of shareholders.

Because the namesake fund managers have stature and standing in the sponsoring firm, these managers have fewer career concerns. Consistent with this expectation, we find that namesake fund managers herd less while assuming greater unsystematic risk. We conclude that namesake managers are less likely than other fund managers to include career considerations in their portfolio investment decisions.

We also present an analysis of the fund performance. In many ways, performance is a measure by which we assess the significance of these agency conflicts. Because of the significant ownership in the fund and reduced career concerns, we expect namesake funds to outperform their peer funds. However, because namesake funds are less effectively monitored, we expect the overperformance by namesake funds to be modest. Consistent with our expectation, we find that namesake funds outperform their peers, but the differences are not statistically significant.

This study is related to the emerging literature on team-managed mutual funds. For instance, our findings regarding the performance of namesake funds (which tend to be run by single managers) are consistent with Prather and Middleton (2002) and Chen et al. (2004) who find no evidence that teams make better investment decisions. Furthermore, our results for the risk-taking proclivity of

namesake funds are consistent with the findings of Bar, Kempf, and Ruenzi (2005) and Massa, Reuter, and Zitzewitz (2006) who report a generally conservative approach by team-managed funds.

Namesake funds are similar in many ways to closely held firms. Consequently, many of the findings of this study contribute to our understanding of the performance and behavior of family or closely held industrial firms. We find, for instance, that namesake funds are able to attract higher levels of investor cash flow than comparable funds. The star power phenomenon of the founder might explain the finding of Hillier and McColgan (2004) that family CEOs are less likely to be removed from their position following poor performance than nonfamily CEOs, regardless of their level of equity ownership. We also establish that namesake fund managers herd less and assume greater systematic risk. This entrepreneurial risk taking and willingness to innovate can help us understand why family ownership of industrial firms creates value only when the founder serves as CEO (Villalonga and Amit 2006). Finally, the unique nature of these namesake funds allows for a greater understanding of the combined influences provided by ownership, control, and management. In namesake funds, the manager owns a majority of the shares, controls the board, and actively manages the fund's assets. This is often not the case in industrial firms where the family exercises only some of these dimensions of power.

## References

- Baliga, B. R., R. C. Moyer, and R. S. Rao, 1996, CEO duality and firm performance: What's the fuss? *Strategic Management Journal* 17, 41–53.
- Bar, M., A. Kempf, and S. Ruenzi, 2005, Team management and mutual funds, Working paper, University of Cologne.
- Barber, B., T. Odean, and L. Zheng, 2005, Out of sight, out of mind: The effects of expenses on mutual fund flows, *Journal of Business* 78, 2095–2119.
- Bergstresser, D. and J. Poterba, 2002, Do after-tax returns affect mutual fund inflows? *Journal of Financial Economics* 63, 381–414.
- Brown, K., W. Harlow, and L. Starks, 1996, Of tournaments and temptations: An analysis of managerial incentives in the mutual fund industry, *Journal of Finance* 51, 85–110.
- Carhart, M., 1997, On persistence of mutual fund performance, *Journal of Finance* 52, 57–82.
- Chen, J., H. Hong, M. Huang, and J. Kubik, 2004, Does fund size erode performance? Liquidity, organizational diseconomies and active money management, *American Economic Review* 94, 1276–1302.
- Chevalier, J. and G. Ellison, 1997, Risk taking by mutual funds as a response to incentives, *Journal of Political Economy* 105, 1167–1200.
- Chevalier, J. and G. Ellison, 1999, Career concerns of mutual fund managers, *Quarterly Journal of Economics* 114, 389–432.
- Del Guercio, D., L. Dann, and M. Partch, 2003, Governance and boards of directors in closed-end investment companies, *Journal of Financial Economics* 69, 111–52.
- Elton, E., M. Gruber, and C. Blake, 2003, Incentive fees and mutual funds, *Journal of Finance* 58, 779–804.
- Fama, E. and J. MacBeth, 1973, Risk, return and equilibrium: Empirical tests, *Journal of Political Economy* 81, 607–36.
- Hillier, D. and P. McColgan, 2004, Firm performance, entrenchment and managerial succession in family firms. Working paper, University of Aberdeen.

- Jensen, M., 1993, The modern industrial revolution, exit, and the failure of internal control systems, *Journal of Finance* 48, 831–80.
- Mahoney, P., 2004, Manager-investor conflicts in mutual funds, *Journal of Economic Perspectives* 18, 161–82.
- Massa, M., J. Reuter, and E. Zitzewitz, 2006, The rise of teams in fund management, Working paper, INSEAD.
- McConnell, J. and H. Servaes, 1990, Additional evidence on equity ownership structure, and firm performance, *Journal of Financial Economics* 27, 595–612.
- Morck, R., A. Shleifer, and R. Vishny, 1988, Management ownership and market valuation: An empirical analysis, *Journal of Financial Economics* 20, 293–315.
- Prather, L. and K. Middleton, 2002, Are n+1 heads better than one? The case of mutual fund managers, *Journal of Economic Behavior & Organization* 47, 103–20.
- Sharpe, W., 1992, Asset allocation: Management style and performance measurement, *Journal of Portfolio Management* 18, 7–19.
- Sirri, E. and P. Tufano, 1998, Costly search and mutual fund flows, *Journal of Finance* 53, 1589–1622.
- Tufano, P. and M. Sevick, 1997, Board structure and fee-setting in the U.S. mutual fund industry, *Journal of Financial Economics* 46, 321–55.
- Villalonga, B. and R. Amit, 2006, How do family ownership, control and management affect firm value? *Journal of Financial Economics* 80, 385–417.