

Favoritism in Mutual Fund Families?

Evidence on Strategic Cross-Fund Subsidization

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ABSTRACT

We investigate whether mutual fund families strategically transfer performance across member funds to favor those more likely to increase overall family profits. We find that ‘High family value’ funds (i.e. high fees or high past performers) over-perform at the expense of ‘Low value’ funds. Such performance gap is above the one existing between similar funds not affiliated to the same family. Better allocations of underpriced IPO deals and opposite trades across member funds explain partly why ‘High value’ funds over-perform. Our findings highlight how the family organization prevalent in the mutual fund industry generates distortions in delegated asset management.

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