
Rise and Fall of New Funds



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Agenda

We seek to explain the successful launches of funds globally.

- What methodology did we use to investigate this question?
- What were the results?
- What are the key takeaways?

Research Question

- What are the drivers of a successful launch of a new fund?
- Two perspectives: Asset Manager (Forward Flows) and Investor (Forward Star Rating)
- The drivers we examine are limited to data available within the first 12 months of a new fund launch. The characteristics are related to the following groups: Fund, Firm, Manager, Portfolio, Style, Category, and Economic.
- Each perspective looks at the same characteristics to see where interests align and diverge

Methodology

- Our sample includes funds less than one year old from January 2005 to March 2013 – over 57,000 unique funds

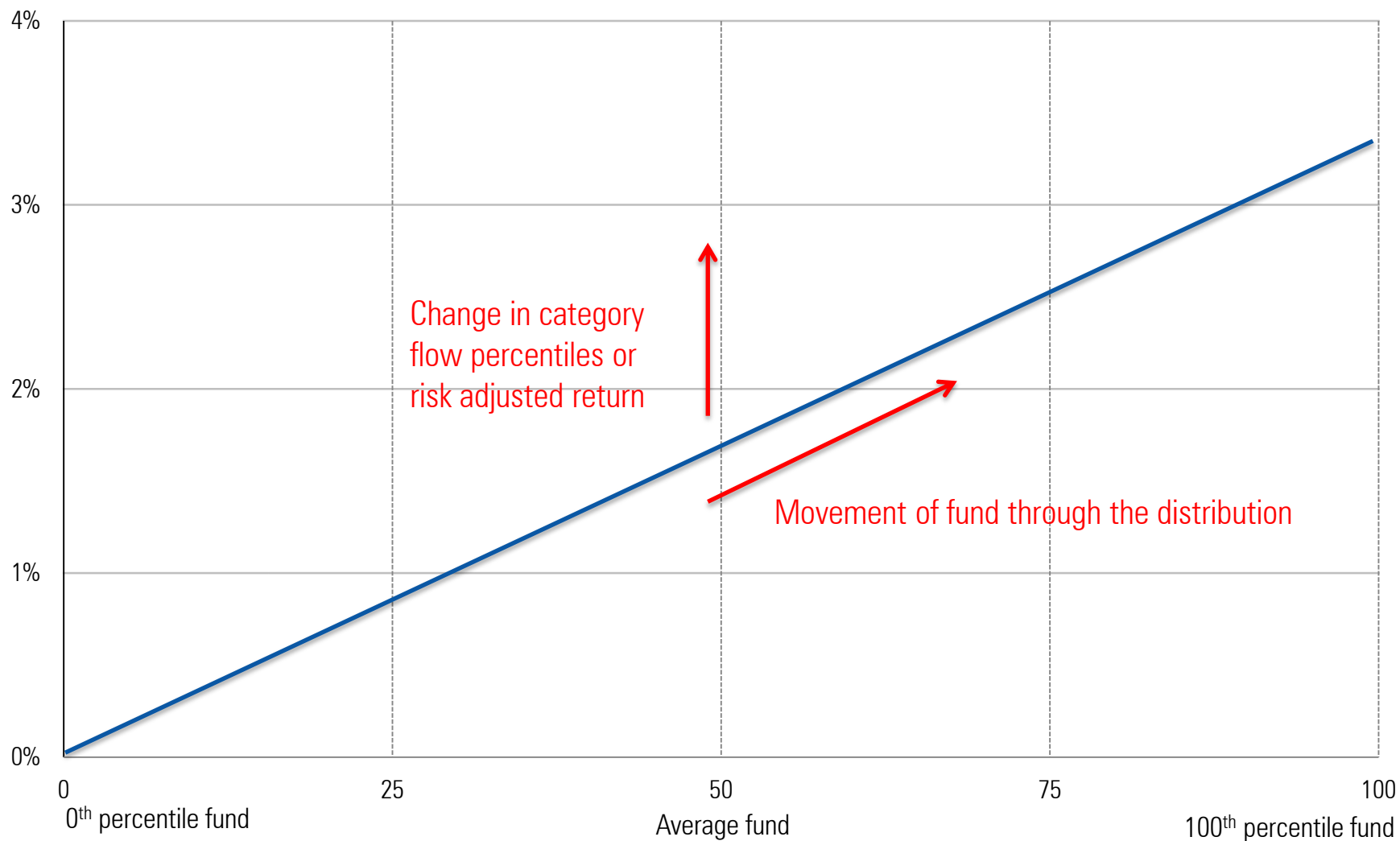
- Dependent Variables:
 - Asset Manager Model: Forward 36 month total flows into fund
 - Individual Investor Model: Forward 36 month Morningstar Risk Adjusted Return

- Calculations:
 - All variables are calculated at the fund level: where applicable, asset weighted values were calculated, otherwise, equally weighted values were used
 - 22 independent variables are standardized into percentiles by date and category
 - Missing data is imputed to the median by date and category
 - Perform panel regression and adjust for autocorrelation through time

- Group funds by equity, fixed income or allocation asset classes.

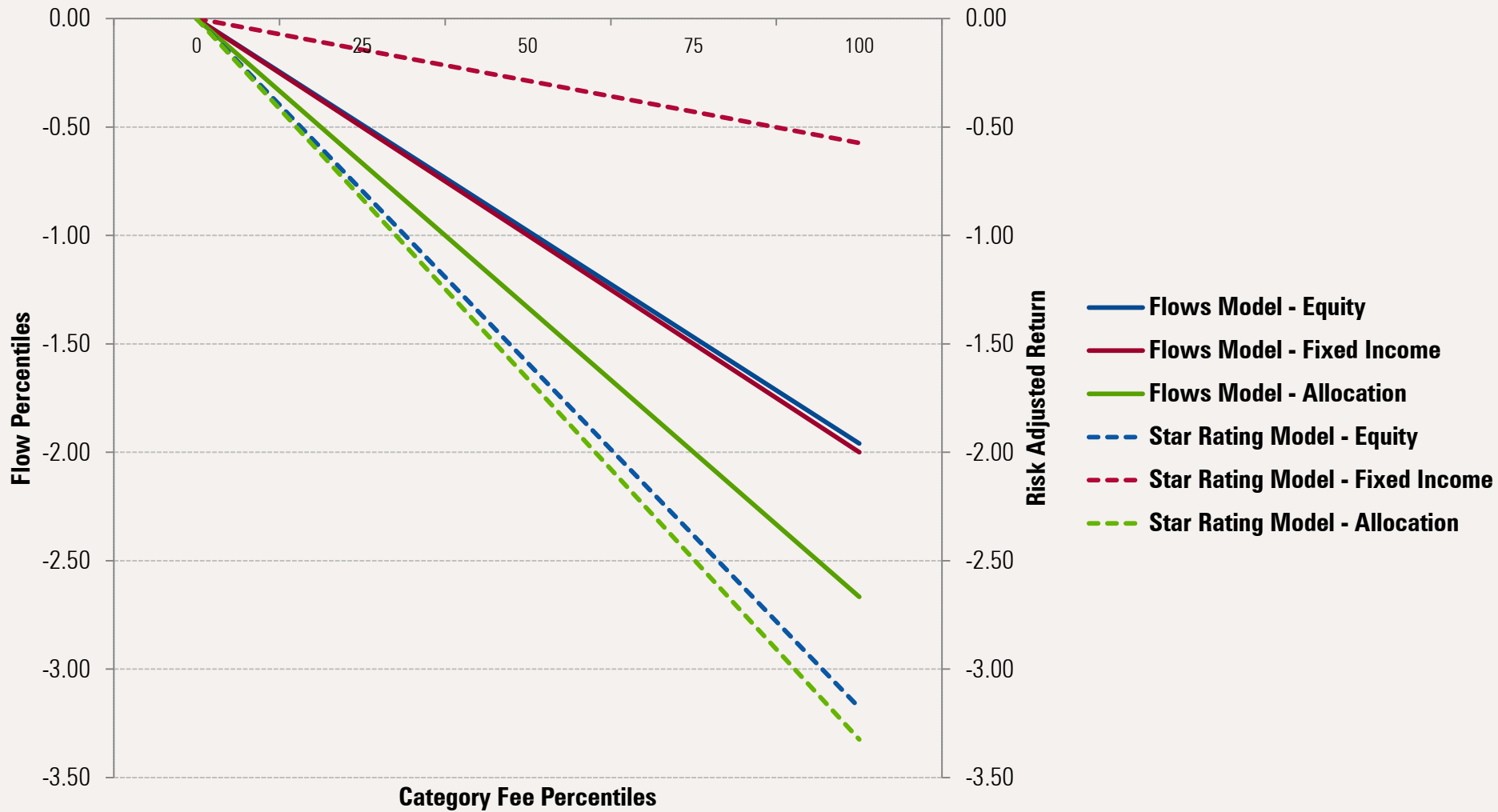
Net Change to Model

We present the estimated impact on flows and Star Rating showing the change when moving from the bottom (0th percentile) to the top (100th percentile) in the category.



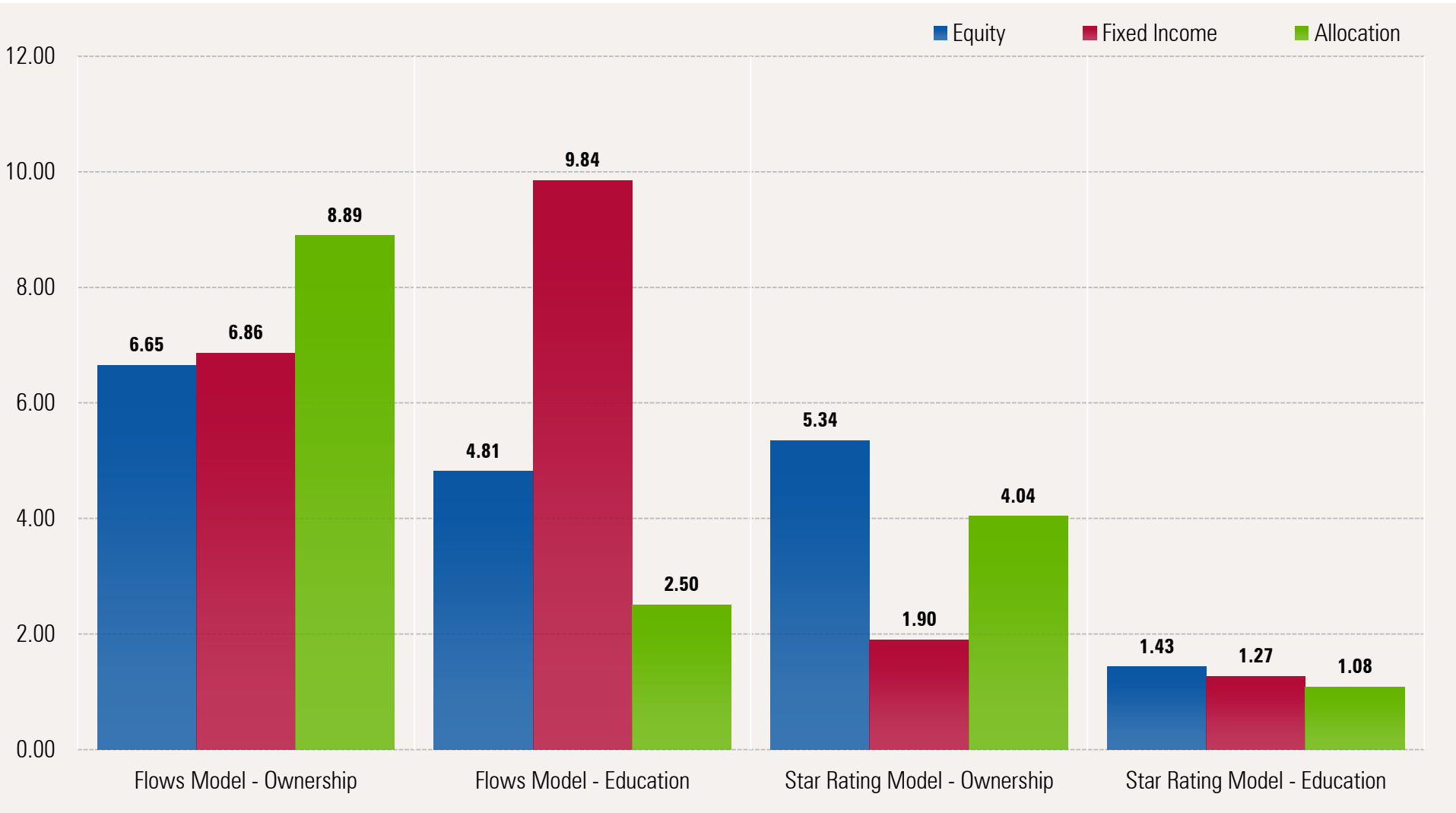
Fees

Fees have an adverse effect on future Star Ratings and attracting future flows.



Manager Traits

Managers who possess a CFA and own their fund are preferred by investors and have had higher risk-adjusted returns.



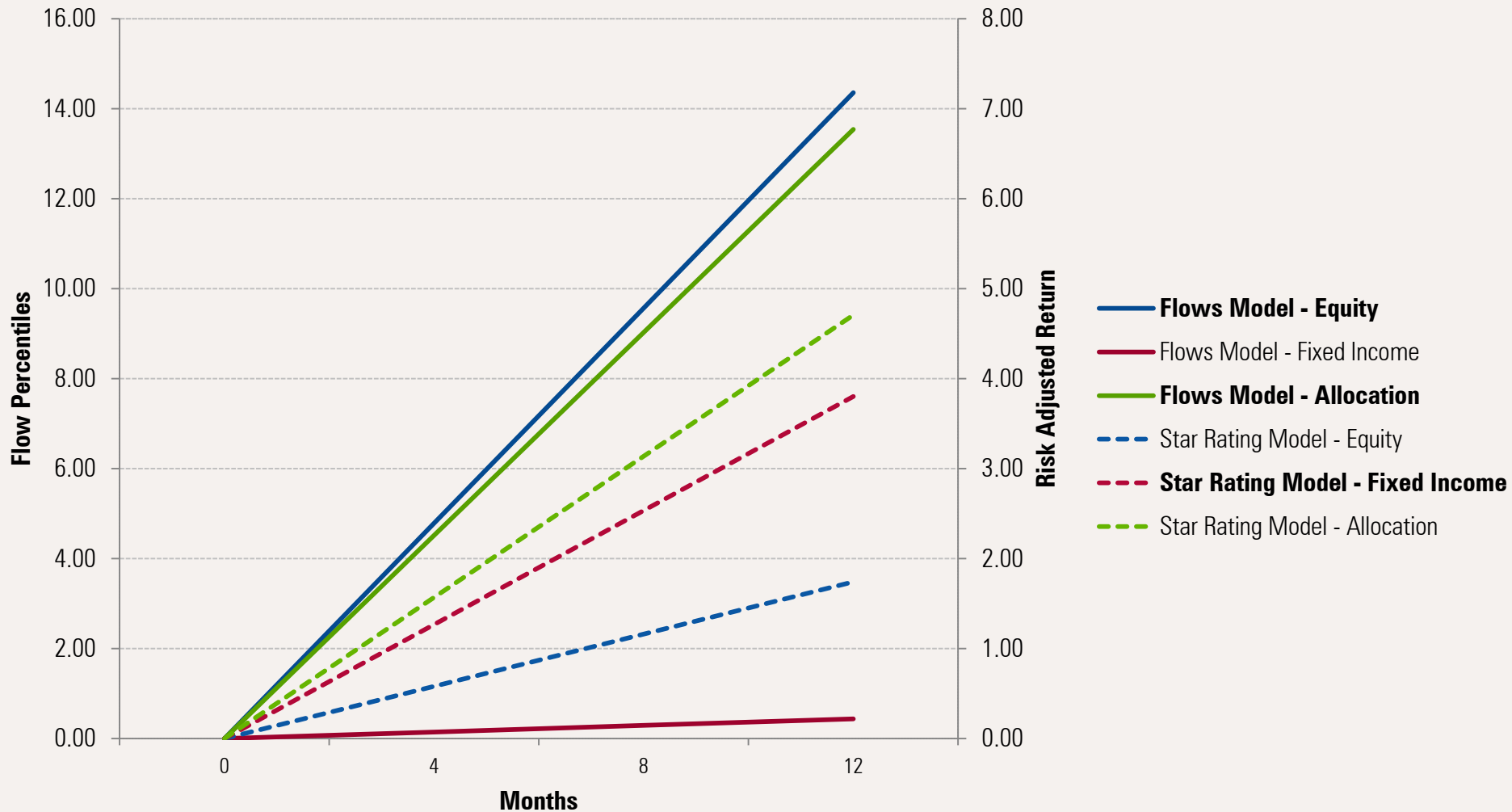
Shifting Gender Preferences

Female portfolio managers have received higher flows.



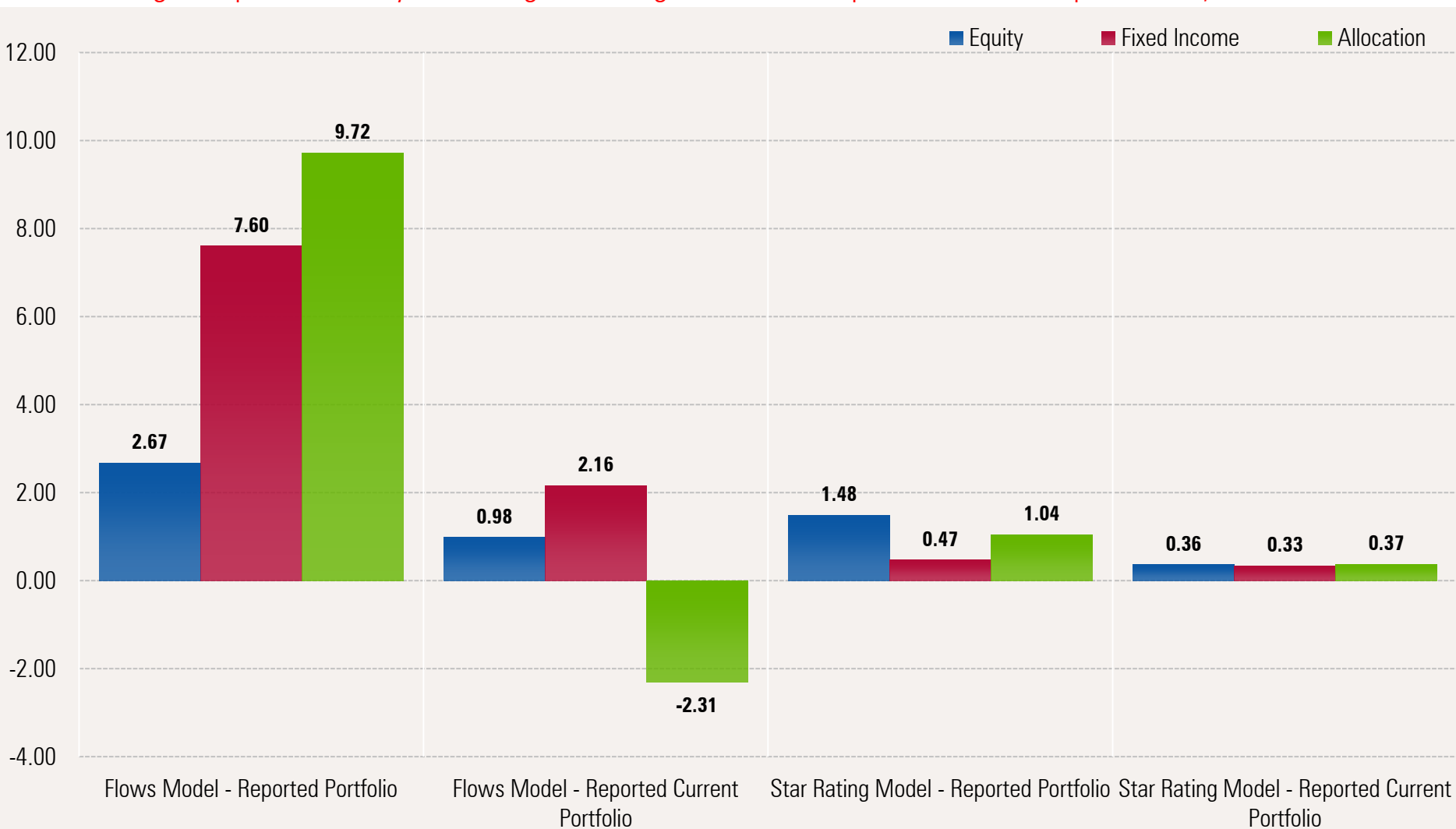
Morningstar Analyst Coverage

Coverage by a Morningstar analyst has an economically meaningful impact on future fund flows and future Star Ratings. This effect holds regardless of the analyst's opinion.



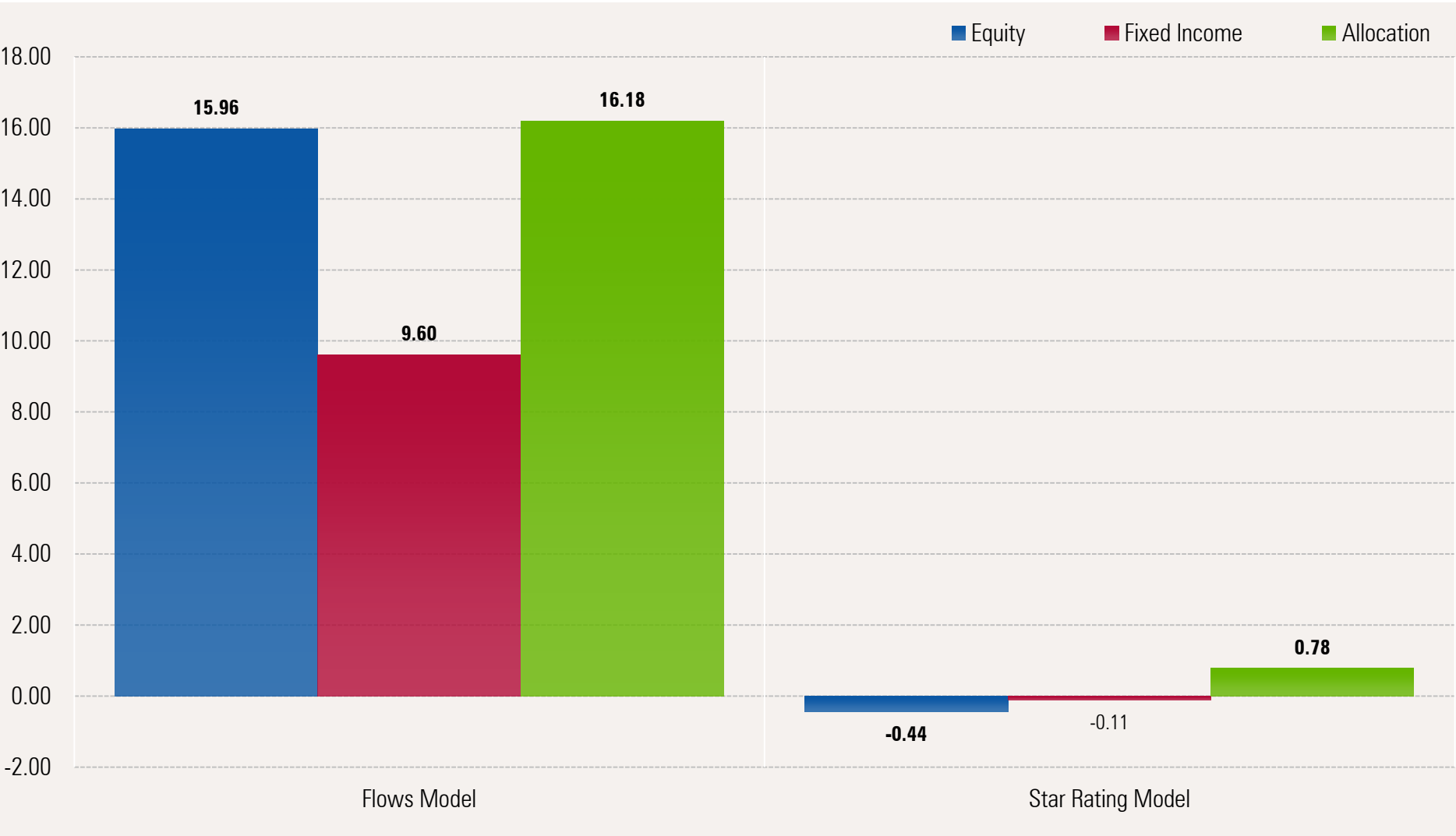
Portfolio Disclosure

Frequent portfolio disclosure correlates with higher flows and higher risk-adjusted returns. (These are the effects of being transparent about your strategies, managers, stewardship, and investment processes.)



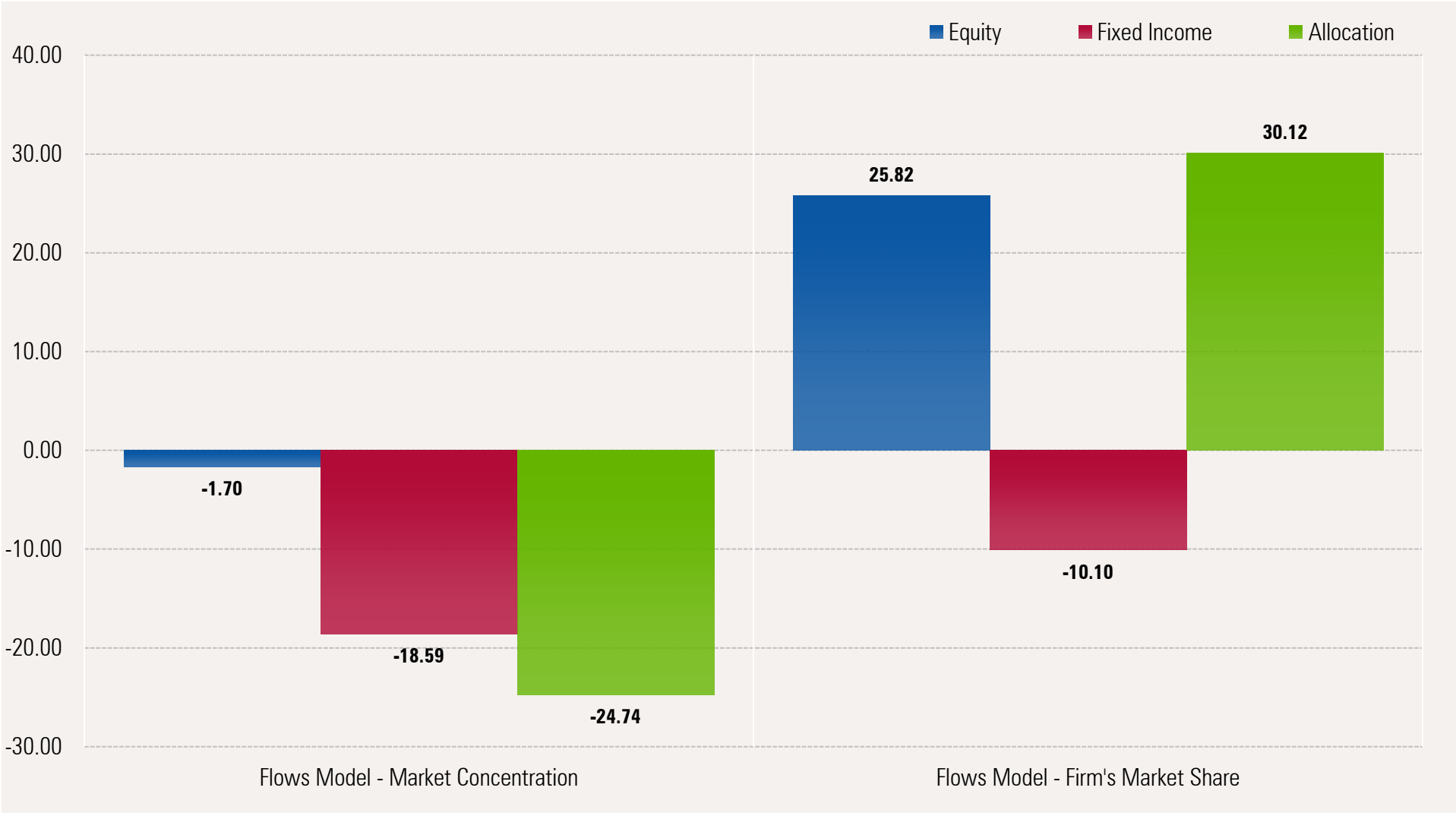
Cannibalization Effect

A cannibalization effect exists at firms that launch multiple products at once.



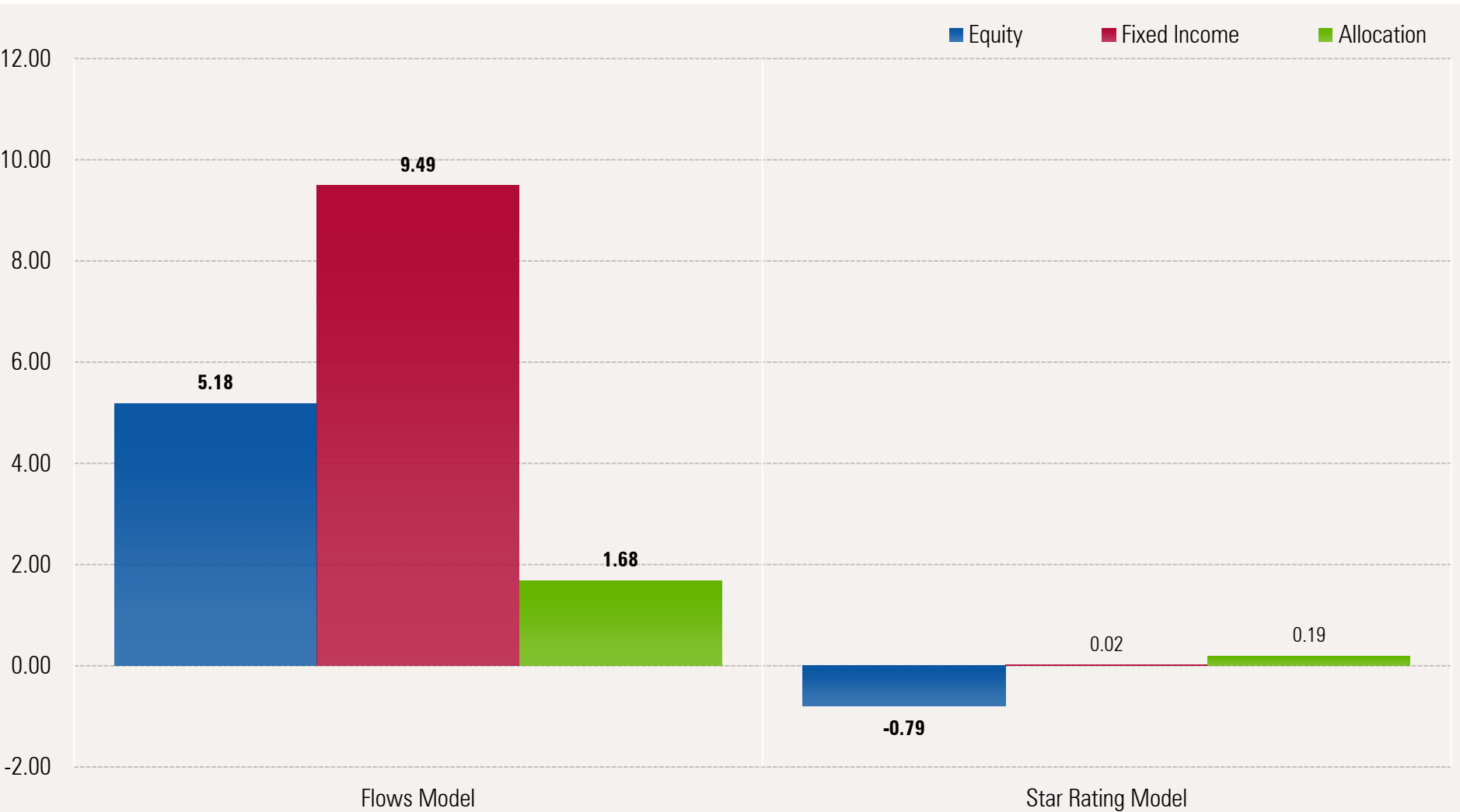
Competition in the Category

Funds launched into monopolistic categories are less likely to attract assets.



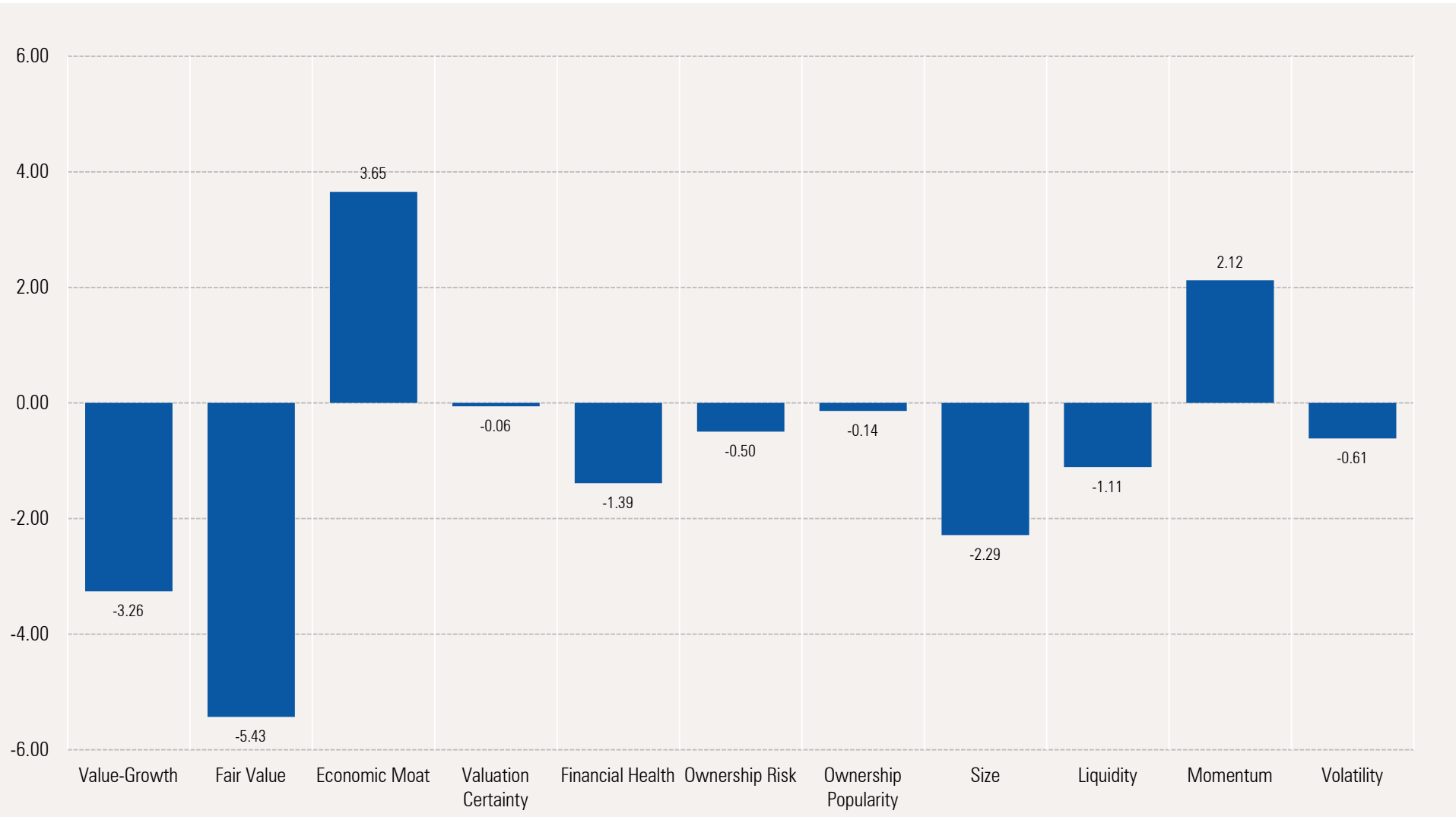
Firm's Asset-Weighted Manager Tenure

Keeping managers at a firm is good for flows but not necessarily for future Star Ratings.



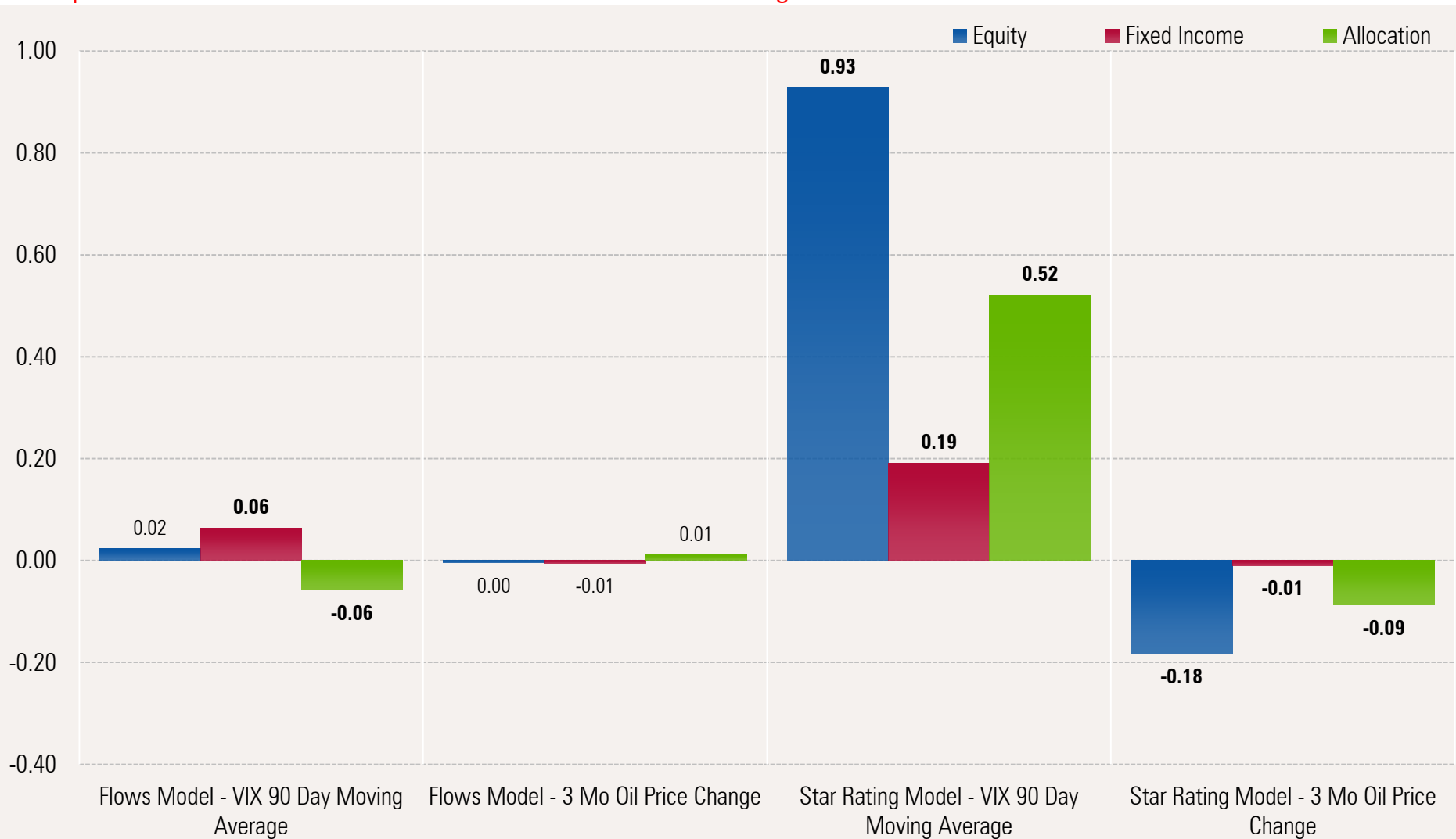
Risk Model Style Factors

Investors show preference for funds holding popular, moaty, large cap, overvalued stocks that have performed well recently while higher Star Ratings are correlated with the opposite style tilts.



Economic

Historically, launching funds in volatile times has led to higher future flows and Star Ratings. Increasing oil prices have had no effect on flows but have hurt Star Ratings.



New Fund Success Factors

- The ownership signal

Managers who own their fund have historically performed better and garnered more assets.

- The CFA difference

Managers who possess a CFA are preferred by investors and have had higher risk-adjusted returns.

- Shifting gender preferences

Female portfolio managers have received higher flows. As private wealth becomes more evenly split between men and women, we expect to see preference for female portfolio managers to be positive and grow over time.

- The frequent portfolio disclosure factor

Frequent portfolio disclosure correlates with higher flows and higher risk-adjusted returns. (These are the effects of being transparent about your strategies, managers, stewardship, and investment processes.)

New Fund Pitfalls

- The cannibalization effect

A cannibalization effect exists at firms that launch multiple products at once.

- Monopolistic category headwinds

Funds launched into monopolistic categories are less likely to attract assets.

- Large firm advantage

New funds from firms with small market shares in the category accumulate fewer assets.

Questions?

Download the paper here: <https://corporate1.morningstar.com/ResearchArticle.aspx?documentId=760435>

Disclosure

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