Does Financial Globalization Propagate Managerial Skills?
Lessons from the Mutual Fund Industry
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Summary

• Large sample of global mutual funds, 2001-2012

• Overseas expansion decisions

• Demand proxy: indexes unpopulated by foreigners

• Questions
  – Do funds expand in response to demand? Yes
  – Which funds expand: Less skilled ones
  – What are the consequences
    • Greater price delay, illiquidity of target stocks
Overall Comments

• As a descriptive exercise, it generally works
  – International growth of funds is an interesting question
  – Difficult and elaborate effort on data
  – A creative new measure of demand.

• Suggestions
  – Microfound in theories of firm scope
  – Mapping to “catering” is unclear
  – Some empirical questions
  – Pretty hard slog to read.

• More on interpretation
  – Channels, implications, economic effects
Microfoundations

• Theory of conglomerates (Lucas 1978; MP 2002)
  – A fixed resource limits horizontal growth
  – Conglomerates have productive cores and peripheral divisions of diminishing productivity

• This paper suggests an alternative foundation
  – Skill dispersion within country follows Lucas, MP. Does it?
  – Expansion across borders does not: Low skill funds grow and create other low skilled funds.
  – So CF researchers can do good AP research, but only low skilled CF (or AP) researchers do CS research?

• The authors should perhaps spell out a framework or model
  – Expand up from historical and descriptive narrative
Microfoundations

• Choice of organizational form to expand (p9)
  – Country-specific closed-end funds?
  – Index funds?
  – ETFs?
  – Time trends in the above?
  – Expansion by and competition from these

• Networks are treated in undirected manner.
  – But this is a directed network
  – US to Africa not the same as Africa to the US

• Home bias literature
  – Seems to be at least a missing x variable
Empirical Issues

• UIT, or unexplored indexes, is a new variable in the study

• More time motivating and describing the multiple layers of a complex, composite variable
  – Expansions in foreign market in general
  – Index creation process: who, when, etc.
  – Domestic investability and index creation
  – Foreign entry into unpopulated indexes
  – Which layers truly matter?

• Properties of the number of unexplored indexes
  – D-stats in Table 1: p10=0, p25=0, p50=6, p75=16, p90=21
  – Should we study separately [0, 0) and (0, n>0]
  – Concavity in specifications? Does the effect of the nth index diminish in the # n?
Empirical Issues

• Do the [AUM] and [specific content of indexes] matter?
  – In the stock-level tests?

• Home and destination country (pairwise) fixed effects?

• Alpha is usually a Fama-French alpha
  – Paper constructs these for other countries
  – Are these well-specified?

• Robustness to DGTW style CS alphas?
  – May be better than alphas from rolling regressions

• Marginal effect of 20% seems a bit high
  – 4% unconditional probability
  – MFX = effect of one new index. But is this the right margin?
Empirical Issues

• Table 5 confused me
  – Domestic fund alphas for those going abroad and catering
  – Baseline alphas in H, M, L insignificant
  – H minus L gives 20 bps per month and significant everywhere

• Liquidity and market quality tests
  – Are these associations or causal effects?
  – Investments may anticipate rather than impact market.

• Will the entry of high skilled funds improve things?
  – Adverse selection problems may worsen
Other things

• Paper (correctly and conservatively) does not take a stance on counterfactuals

• But the question does not go away
  – What is the counterfactual world you might see?
  – Would it be worse off or better off?

• Is catering truly “catering” [to misvaluation]? Or is it just a demand proxy? Is it exogenous?

• Expositional issues
  • Decrease table density.
  • A rich paper with many new variables, ideas, specifications. Curate what you put in a bit more.