

# Motivation and Performance Among Fund Managers

## **Background**

Investment performance in equity markets is fraught with uncertainty. In attempts to broaden their risk, diversify their portfolios, and tap into the wisdom of market experts, many investors, both institutions and individuals, entrust their investments to investment funds and the fund managers who run them.

Managers of investment funds face generous rewards if their funds perform well. They face their share of professional disgrace if their funds do poorly. If poor performance persists long enough, the fund will be dissolved and the staff laid off. There are two schools of thought on this reward system: one group believes that the best motivator is the threat of punishment for poor performance. Others believe that the rewards to the top performers motivate them to persist and motivate others to attain those rewards.

Your task is to try to test both of these hypotheses, focusing especially on performance in 2015 and 2016, as the incentives have sharpened starting in 2015 (for 2014 performances). The data you have at your disposal reflect the performance (measured in annual percentage return) for 99 actively managed funds.

## **Instructions:**

The data file "Funds.xlsx" is available at <http://learnmoore.org/MBA257/Funds.xlsx>. It contains performance numbers for 2013 through 2016, for each of 99 funds. The spreadsheet also includes columns indicating whether a fund was among the top 5 (green cells) or bottom 5 (red cells) in the set.

Based on the available data, answer each of the following questions, briefly explaining the calculations you conducted. Also indicate, for each question, if there is any additional information you would like to have.

## **Questions:**

- 1) Some people predicted that once a fund manager performed in the top 5 they would grow accustomed to the benefits (i.e. become part of their reference point), and hence, because of loss aversion, would work particularly hard in order to maintain performance. Were they right?
- 2) Others thought that the disgrace of poor performance among the bottom 5 would lead the worst performers to work particularly hard to improve. Were they right?

Please submit your answers by Tuesday, April 4 via this online survey:

[https://berkeley.qualtrics.com/jfe/form/SV\\_9vpotXOuFhhKWfX](https://berkeley.qualtrics.com/jfe/form/SV_9vpotXOuFhhKWfX)