

Investment Executive (Kanada), 13. November 2007



## **Gender has no bearing on returns**

### **But fund performance suffers with mixed-gender management teams**

By Gordon Powers

Gender difference is a topic of endless discussion for social scientists. So, do men and women manage mutual funds differently? Yes, says Stefan Ruenzi, a professor at the University of Cologne in Germany. But these differences don't necessarily affect returns.

In a study, Ruenzi and his team of researchers looked at all actively managed domestic equity mutual funds in the U.S. over 10 years through 2003. Eliminating funds that were managed by teams, they focused exclusively on those managed by either one man or one woman. Roughly 11% of the funds were run by women.

The study found that male fund managers tend to take more aggressive bets. Men, for example, were more likely to invest in stocks that had little in common with the other stocks they owned. They were also more likely to drift from their published investment style. In other words, they tended to be less predictable than their female counterparts.

As well, men were overconfident in their abilities to time the market, leading to more frequent trading. The researchers found that the average fund managed by a man had a turnover rate that was approximately 10% higher than the average fund managed by a woman.

While the raw returns of funds managed by women were slightly lower than those of the funds managed by men on average, the differences were quite small. In fact, on a risk-adjusted basis, the two groups' performances were about equal.

From a performance perspective, there doesn't seem to be any reason to prefer a male manager over a female manager. However, because women tend to trade less and stick closer to their stated investment style, Ruenzi says, investors who are carefully allocating their assets to optimize a portfolio may have reason to prefer a fund managed by a woman.

And this may also have an impact on hiring decisions. Firms with a high probability of being sued for discrimination — i.e., large, established fund companies — are more inclined to employ women, he says. Furthermore, women fund managers are more likely to be employed in the less conservative areas of the U.S.

Of course, discussions of gender differences of any kind can only be about averages; it's clear that there are women who thrive in certain environments and men who do not. Furthermore, attitudes toward competence may be ingrained or a measure of social stereotyping. But, says Stanley Atkinson, a professor at the University of Central Florida, they do exist in the fund management world.

Despite the similarities between male and female managers, Atkinson found evidence that gender does influence mutual fund investors' decision-making. He has determined that the net asset flows into funds managed by women tend to be lower than those managed by men, especially in the manager's initial year of managing the fund.

In a later study, Ruenzi and his researchers went on to explore what might happen when fund companies mix the genders in management positions. Here, they concluded, fund performance could suffer. This may prove significant in that the number of team-based funds has risen significantly in recent years.

Ruenzi's team found that gender diversity was inversely correlated with performance. To put this into an investment context, the researchers looked to two hypothetical funds, one managed by a team of four men and the second by a team of three men and one woman. Were future returns to match the eight years covered by their study, they predicted that the first fund would outperform the second by more than one percentage point a year.

This negative effect on fund performance is clearly not a measure of competence but more probably a result of the poorer communication that often exists in mixed teams. Consequently, Ruenzi says, single-gender teams would probably operate more cohesively and effectively.

CFR Working Paper 2006-01

Alexandra Niessen, Stefan Ruenzi

**Sex Matters: Gender and Mutual Funds**

<http://www.cfr-cologne.de/download/workingpaper/cfr-06-01.pdf>

CFR Working Paper 2007-16

Michaela Bär, Alexandra Niessen, Stefan Ruenzi

**The Impact of Work Group Diversity on Performance: Large Sample Evidence from the Mutual Fund Industry**

<http://www.cfr-cologne.de/download/workingpaper/cfr-07-16.pdf>