FACULTÉ DE DROIT, D'ÉCONOMIE ET DE FINANCE

Date of the event:

On Friday 26th November 2010
From 01:00 PM to 2:00 PM

Location:

Luxembourg School of Finance
University of Luxembourg
4 Rue Albert Borschette
2nd Floor
Modigliani Miller Auditorium (E02-003)
L-1246 Luxembourg

Registrations:

- Free seminar (with lunch included)
- Registrations by email before November 23rd, 2010
- At the following address : lsf-events@uni.lu

Information:

Ms Caroline Herfroy
Tel : +352 46 66 44 6335

http://www.lsf.lu/index.php/eng/Research/Seminars-and-Workshops

UNIVERSITÉ DU LUXEMBOURG

FACULTÉ DE DROIT, D'ÉCONOMIE ET DE FINANCE

LUXEMBOURG SCHOOL OF FINANCE

The LSF is pleased to invite you to the following lunch seminar:

Risk Incentives of Hedge Funds Managers

By Prof. Guillermo Baquero
European School of Management and Technology, Berlin, Germany

UNIVERSITÉ DU LUXEMBOURG

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LSF Seminar

UNIVERSITÉ DU LUXEMBOURG

Risk Incentives of Hedge Funds Managers

By Guillermo Baquero

It is a well known theoretical result that the overwhelming and positive response of investors to the performance of the best funds may result in a potential agency conflict by inducing poor performing managers to increase the risk of their portfolios. Our results in this paper suggest that these implicit risk incentives might be moderated by investors' aggregate response at the style level. Indeed, we find that investors' response is more pronounced for individual funds in the top performing styles. In other words, the flow-performance relation for individual funds is convex for the top performing styles but concave for the worst performing styles. The underlying idea being that the performance of a style conveys a powerful signal about the ability of managers belonging to that particular investment style. As a result, we also find statistically significant evidence of two opposite risk incentive effects. On the one hand, risk taking behavior of poor performing managers is only prevalent in the top performing styles. In contrast, the poor performing managers in the poor performing styles reduce the risk of their portfolios.

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