

Find the Best Fund Manager Through Their Personal Characteristics

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Abstract: Using the data from mutual funds in China, we analyze the impact of fund managers' personal characteristics on fund returns. Firstly, we find that if fund managers have a longer career in the securities industry, the Sharpe ratio and volatility of their fund will be lower, which means that fund managers with more experience tend to achieve higher investment returns, their investment style will be more conservative, and the fund's volatility will be lower. Secondly, we find that although the education level of fund managers does not have a significant influence on the fund returns, it has a significant impact on the volatility of fund returns, with higher-educated fund managers having lower volatility and a more conservative investment style. Thirdly, we find that the gender of fund managers does not have a significant impact on both the fund's returns and volatility. In brief, our research makes great contributions and has the ability to help investors choose better fund managers.

Keywords: Fund Managers, Education, Gender, Professional Experience.

1. Introduction

With the growth of the economy, the Chinese mutual fund industry has been expanding in scale. The total size of the mutual fund industry has grown rapidly from 840 trillion RMB in 2015 to 2760 trillion RMB in 2023, while the number of the mutual funds has increased from 2,722 in 2011 to 11,528 in 2023. Although the mutual fund industry in China is large enough in scale, it still contains a variety of investment risks. The research by Wang and Zhang shows that at least half of active fund managers in China lack stock selection ability and are unable to bring excess returns to the mutual fund investors [1]. Therefore, the most concerning issue for investors has become selecting funds with good performance and building an investment portfolio that aligns with their risk preference. Thus, the goal of this article is to find fund managers with higher returns through a series of analyses.

Fund performance is influenced by a variety of factors, such as the management capability of fund companies, market environment, the characteristics of the fund itself so on and so forth. Among these numerous factors, the personal characteristics of fund managers are particularly important. Zheng find that fund managers of different genders present significant differences in their investment styles, which means that male fund managers are more overconfident, showing higher turnover rates and volatility in returns, while female fund managers have a more conservative investment style, offering a better holding experience [2]. Furthermore, the different background of fund managers, such as experience, career, age, education, alumni networks, and other factors can significantly affect their investment returns. Therefore, based on the availability and reliability of data, we primarily analyze

the impact of the fund manager's personal characteristics on the Sharpe ratio and volatility of the funds they manage, focusing on aspects such as gender, education, and career. The Sharpe Ratio measures the return that a fund manager can achieve under the conditions of a given level of risk, while volatility measures the fund manager's investment style, which means a lower volatility indicates a more conservative approach and a better investment experience for investors.

In order to eliminate the interference of multiple fund managers on the results, we select funds according to the following rules. We require that the funds in the sample be managed by a single fund manager, and no fund manager has been changed during the sample period. In addition, to exclude the impact of the fund's listing period, we choose the mutual funds listed before 2020 as sample data. After matching the personal characteristics of fund managers as well as the fund's Sharpe ratio and volatility, we draw the following conclusions. First, we find that gender and education do not have a significant impact on fund managers' ability to achieve a higher Sharpe ratio, meaning that gender and education are not related to the returns of fund managers. Second, we find that the longer a fund manager has worked in the securities industry, the significantly higher their Sharpe Ratio is. This result means that the more experience a fund manager has, the higher returns he or she will get, and this relationship becomes more and more significant as the years of experience increase. Third, we find that the gender of fund managers does not have a significant impact on the volatility of their investments, meaning that there is no clear relationship between gender and the investment style of fund managers. Fourth, we find that the higher education the fund manager get, the lower the volatility is, which means that fund managers with higher education tend to have a more conservative investment style and a better investment experience. Fifth, we find that the longer the fund manager has worked in the securities industry, the lower the volatility is. It means that fund managers with more experience tend to have a more conservative investment style.

Our research has some contributions in two aspects. Firstly, we supplement the literature and information on the personal characteristics of fund managers, enrich the information in the mutual fund market, and especially provide the evidence from emerging fund market. Secondly, our research findings offer new insights for the market to discover better fund managers, which helps individual investors have a better understanding of fund managers and find managers who can align with their risk preferences. In addition, our results also provide assistance for institutional investors to better identify potential outstanding fund managers.

2. Literature Review

The saying that “choosing a fund is not as good as choosing a fund manager, buying a fund is essentially buying the fund manager” has been widely acknowledged for a long time. The research by Xiao and Shi, Wu have shown that fund performance is important information when making decisions, which supports investors' choice of fund products, and the ability of the fund manager directly determines the performance of the fund [3-4].

Therefore, when investors engage in fund investments, they also pay more attention to the comprehensive abilities of fund managers. Thus, how can we choose excellent fund managers? Studies have shown that the personal characteristics of fund managers can affect their investment style, which in turn affects the performance of the funds, and these personal characteristics tend to have stability. Therefore, people often choose fund managers based on their personal characteristics, and then select fund products accordingly. There are numerous studies on the relationship between fund managers' personal characteristics and fund performance, mainly focusing on aspects such as the gender, education, and career of the fund managers.

According to Zheng, gender differences can reflect on the behavior and decisions of individual managers [2]. In his perspective, male fund managers tend to be more audacious and take on more risks, compared to female fund managers, but sometimes they can be overconfident, which will lead

to errors in their decisions. Hence, female fund managers are less inclined to construct risky portfolios, and their investment styles are less likely to be extreme. This conclusion is consistent with the findings of the foreign scholar Simons [5]. Simons thought that male fund managers generally have a stronger ability to control risks than females, but there is no significant difference in fund performance. Whereas, Lei conducted further research on that, and he believes that there is a significant correlation between the gender of fund managers and fund performance during the declining phase, in the contrary, the gender of fund managers does not have a significant impact on fund performance during the volatile and rising phases [6].

Regarding the various impact of fund managers' educational background on fund performance, scholars have reached many different conclusions. Lei believes that the education level of fund managers does not significantly affect fund performance during the decline and growth phases [6], but it is positively correlated with fund performance during the fluctuation phase. Otherwise, Yang believes that there is a negative correlation between the education of fund managers and fund performance [7]. Whereas, in Sun's study, he found that there is a positive relationship between fund managers' education level and fund returns, but their contribution to fund returns is not significant [8]. That may due to the fact that highly educated fund managers tend to have better learning skills and clearer thoughts, but are more reluctant to take risks and prefer conservative policies.

Sun also hold the view that the length of the fund manager's career is positively correlated with the return rate in the some private equity fund. He believes that a longer career means more experience, a sharper insight into China's domestic stock market, and the ability to take preventive measures before a stock market crash. In addition, longer career also makes fund managers have higher loyalty to their companies, and make greater efforts to enhance fund returns. However, in Cheng's study, the career experience of fund managers did not have a significant impact on fund performance [9], which she believes may due to the probability that fund managers may become overconfident and excessively reliant on their experience as they work in the securities industry over time, which could lead to abnormal decision. Of course, this might be caused by the small size of her research sample, and the high concentration of fund managers' age, which has the probability to make the distribution of variables uneven, and bring errors to the conclusions.

Research has shown that personal characteristics of fund managers, such as gender, education, and career, can directly affect management ability and investment skills of fund managers, which will further have an influence on the fund performance of the managers.

3. Data and Empirical Analysis

3.1. Data

We use the data from equity mutual funds of China from 2021 to 2023, and delete funds listed before 2020 to exclude the impact of lately issued funds. Meanwhile, we delete funds that managed by multiple fund managers from the sample, to prevent the impact of multiple fund managers [10]. In other words, we excluded the impact of team characteristics on the results, and only retain mutual funds managed by a single fund manager. The data on the gender, education, career, Sharpe ratio, and return rate of fund managers are all from the CSMAR database.

Table 1: Descriptive Statistics.

	N	Mean	Min	25th	50th	75th	Max
Sharpe	584	0.54	-3.01	-0.03	0.73	1.23	2.85
Volatility	584	18.46	4.49	14.60	17.80	21.62	39.64
Gender	584	0.83	0	1	1	1	1
Education	584	2.07	1	2	2	2	3
Career	584	13.11	4	10	13	15	29

Table 1 shows the statistical description of the sample. Our sample includes a total of 584 mutual funds, and 584 mutual fund managers. Among these fund managers, the average length of career is 13.11 years, the majority of fund managers have a master degree or higher, and male fund managers hold a higher proportion.

To examine the impact of personal characteristics of fund managers on return, we established a regression model as follows:

$$Y_{i,t} = \alpha + \beta_1 \text{Gender}_i + \beta_2 \text{Edu}_i + \beta_3 \text{Career}_{i,t} + \varepsilon_{i,t} \quad (1)$$

In this model, the explained variable is the Sharpe ratio and volatility of fund manager i on day t , where the Sharpe ratio is the ratio of the fund's excess return to volatility, and the fund volatility is the standard deviation of daily returns over the year prior to day t . Gender is a dummy variable for the gender of the fund manager, where it equals to 1 if manager i is male and 0 if female. Education represents the educational background of the fund manager, where it equals 1 if manager i has a bachelor degree, 2 if he has a master degree, and 3 if he has a doctoral degree. Career is the number of years a fund manager has worked in the securities industry.

3.2. Empirical Analysis

In order to analyze the influence of individual characteristics of fund managers on investment returns, we use the Sharpe ratio of the funds as the dependent variable for OLS regression analysis, and the regression results are shown in Table 2. In the third column of Table 2, the regression coefficients of Gender and Education are -0.1 and 0.1 respectively, but neither is significant. This result indicates that there is no significant relationship between the gender, education of fund managers and the Sharpe Ratio. To put it simply, male fund managers and those with higher degrees do not always achieve better investment returns. The regression coefficient of Career is 0.04, which is positively significant at the 1% level, indicating that fund managers with more experience tend to achieve higher investment returns.

Table 2: Sharpe Ratio Analysis.

	Y=Sharpe		
	(1)	(2)	(3)
Gender	-0.10 (-0.93)	-0.10 (-0.93)	-0.10 (-0.98)
Education		-0.01 (-0.12)	0.10 (0.84)
Career			0.04*** (4.33)
N	584	584	584
R-Squared	0.001	0.002	0.033

Notes: *, **, *** represent significance levels of 10%, 5%, and 1% respectively. The values in parentheses are t-values.

Secondly, we use volatility as the dependent variable in regression to analyze the impact of fund managers' personal characteristics on their investment style. The regression results are displayed in Table 3. In the column 3 of Table 3, the regression coefficient of Gender is -0.35, which is not statistically significant. The regression coefficient of Education is -1.43, significantly negative at the 5% level, indicating a negative correlation between education and fund volatility. This suggests that fund managers with higher degrees tend to have a more conservative investment style, manage funds with lower volatility, and provide a better investment experience for investors. The coefficient of Career is -0.36, which is negatively significant at the 1% level, meaning that the years that fund

managers have worked in the securities industry are negatively correlated with volatility. In other words, the investment style of fund managers becomes more conservative, and the volatility of the funds becomes lower, as the career experience increase.

Table 3: Volatility Analysis.

	Y=Volatility		
	(1)	(2)	(3)
Gender	-0.46 (-0.76)	-0.45 (-0.75)	-0.35 (-0.61)
Education		-0.42 (-0.60)	-1.43** (-2.06)
Career			-0.36*** (-6.60)
N	584	584	584
R-Squared	0.001	0.002	0.071

Notes: *, **, *** represent significance levels of 10%, 5%, and 1% respectively. The values in parentheses are t-values.

4. Conclusion

For the purpose of analyzing the influence of individual characteristics on fund managers' performance, we used data from mutual funds established before 2020 in China, selecting typical individual characteristic factors such as gender, education, and career to analyze how personal characteristics of fund managers affect their performance. We find that gender and education do not have a significant impact on fund returns. Whereas, the impact of career experience on fund returns is stronger, which means that the longer the fund managers have worked in the securities industry, the higher the fund returns. This relationship becomes more significant as the years of career experience increase. Gender has no significant relationship with the investment style of fund managers. Fund managers with higher education level tend to have a more conservative investment style and better investment experience. While those fund managers with more career experience also tend to have a more conservative investment style and provide a better investment experience for investors.

Our study on the relationship between the personal characteristics of fund managers and fund returns is valuable for particular practice to some extent, and we hope to provide some reference and suggestions for investors and fund companies. For some investors who pursue higher returns, they can choose fund managers who have worked in the securities industry for a longer time. If you prefer to be conservative and pursue steady fund returns, you can choose fund managers with higher education level and more career experience. If you are willing to take on more risk, you can choose fund managers with bold and aggressive investment styles, who are less educated and have less career experience.

Our study has made some contribution to the literature on fund managers' personal characteristics, and provided a new perspective for investors with different risk preference to analyze and choose better fund managers. However, due to the availability of data, there are still some shortcomings in our analysis. For instance, compared to the numerous personal characteristics of fund managers, the characteristics we focus on is fewer. At the meantime, some personal characteristics of fund managers are difficult to quantify, which may significantly affect the investment returns of fund managers, such as the emotional state of the fund manager.

Given the above flaws, future scholars can devote more energy to the other characteristics of fund managers such as emotional state, alumni networks, and other aspects. Moreover, apart from the

personal characteristics of fund managers, there are also a variety of factors that can affect fund performance, such as market environment, ownership structure, investment preferences and so on. Hence, investors need to consider various factors comprehensively to make the best decisions and try to avoid follow blindly.

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