Three Essays on Financial Intermediation

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Are Professional Investment Managers Skilled?
Evidence from Syndicated Loan Portfolios

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Abstract

Theory predicts that individual investor’s incentives to uncover new information about asset values are low if asset prices are efficient. This, in turn, implies that heterogeneity in investment manager skill, if present, should be most clearly visible among managers that focus on asset classes with less informationally efficient prices. We investigate this argument using a large sample of syndicated bank loan portfolios managed by collateralized loan obligation (CLO) managers. Using a CLO’s equity tranche cash-on-cash (CoC) return to measure performance, we find strong persistence that is robust to an extensive set of risk controls. While investors seem to derive their expectation about management quality from a manager’s realized performance and allocate more capital to “skilled” managers, top performers cope to stay ahead net-of-fees. This questions the rationality of managers and the efficiency of the syndicated loan market.

JEL-Classification: G21, G23, G24

Keywords: Collateralized Loan Obligations, Credit Trading, Manager Quality, Performance Measurement, Securitization
Abstract

We provide an economic rationale for the expansion of private equity (PE) groups into the business of private debt investing. We argue and show empirically that combining PE with private debt provides dual benefits for the parent entity. On the one hand, in the primary loan market, the parent uses its debt management division as a source of cheap funding for the PE funds' portfolio companies which boosts the funds' equity returns. On the other hand, there is information spillover from the PE to the debt division, enabling the debt manager to profitably trade on this information in the secondary loan market. Our results suggest that PE firms with affiliated debt management arms benefit from competitive advantages relative to their single-market peers.

Keywords: Syndicated loans, private equity, private information, information diffusion, conflicts of interest.

JEL Classification: G11, G14, G23
Socially Responsible Equity Funds and the Dow Jones Sustainability Index

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Abstract

I use variation created through changes in the index composition of the Dow Jones Sustainability Index (DJSI) to measure social preferences of U.S. domestic equity mutual funds. I find that while socially labeled funds (SRI funds) show a higher level of investments in DJSI stocks their response to changes in the index composition is not different from conventional funds. Moreover, out-of-sample predictions of reactions to index changes are weak for social responsibility ratings and the SRI label as predictors. The results either challenge the value of SRI labels and social responsibility ratings or the relevance of the DJSI for socially driven investment decisions.

Keywords: Socially-responsible mutual funds, cost of capital

JEL Classification: G11, G23