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# The Superior Performance of Investment Bank-Affiliated Mutual Funds

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**Abstract :** Traditionally, mutual funds have long been esteemed as stand-alone entities in the U.S. However, the prevalence of the fund families' affiliation to financial conglomerates is eroding this striking feature. Mutual fund families' affiliation with financial conglomerates can potentially be an important source of superior performance or cost to the affiliated mutual fund investors. On the one hand, financial conglomerates affiliation offers the mutual funds access to abundant resources, better research quality, private material information, and business connections within the financial group. On the other hand, conflict of interest is bound to arise between the financial conglomerate relationship and fund management. Using a sample of U.S. domestic equity mutual funds from 1994 to 2017, this paper examines whether fund family affiliation to an investment bank help the affiliated mutual funds deliver superior performance through private material information advantage possessed by the investment banks or it costs affiliated mutual fund shareholders due to the conflict of interest. Robust to alternative risk adjustments and cross-section regression methodologies, this paper finds that the investment bank-affiliated mutual funds significantly outperform those of the mutual funds that are not affiliated with an investment bank. Interestingly the paper finds that the outperformance is confined to holding return, a return measure that captures the investment talent that is uninfluenced by transaction costs, fees, and other expenses. Further analysis shows that the investment bank-affiliated mutual funds specialize in hard-to-value stocks, which are not more likely to be held by unaffiliated funds. Consistent with the information advantage hypothesis, the paper finds that affiliated funds holding covered stocks outperform affiliated funds without covered stocks lending no support to the hypothesis that affiliated mutual funds attract superior stock-picking talent. Overall, the paper findings are consistent with the idea that investment banks maximize fee income by monopolistically exploiting their private information, thus strategically transferring performance to their affiliated mutual funds. This paper contributes to the extant literature on the agency problem in mutual fund families. It adds to this stream of research by showing that the agency problem is not only prevalent in fund families but also in financial organizations such as investment banks that have affiliated mutual fund families. The results show evidence of exploitation of synergies such as private material information sharing that benefit mutual fund investors due to affiliation with a financial conglomerate. However, this research has a normative dimension, allowing such incestuous behavior of insider trading and exploitation of superior information not only negatively affect the unaffiliated fund investors but also led to an unfair and unleveled playing field in the financial market.

**Keywords :** mutual fund performance, conflicts of interest, informational advantage, investment bank
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