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## Foreword

The institutionalization of the asset management industry and the delegation of portfolio management decisions to professional fund managers have gained in importance during the last decade. Consequently, asset management in general and the evaluation of the investment performance of managed portfolios in particular have evolved into important topics in the mutual fund industry as well as in academic research. Most of the empirical studies on mutual fund performance and performance persistence have concluded that, on average, mutual funds do not outperform their respective benchmark after costs. These results lead to a number of interesting and important research questions. Peter Lückoff addresses these issues by analyzing theoretically and empirically the investment performance and the performance persistence of about 4,000 U.S. equity mutual funds. Instead of focusing only on performance measurement, his objective is to investigate the factors that may be responsible for the empirical findings in the academic literature of no persistent abnormal performance. His main research question is therefore: Why is persistent mutual fund performance so difficult to achieve?

Peter Lückoff conducts his analysis of mutual fund performance and performance persistence very carefully in that he first discusses and analyzes how to correctly measure the risk-adjusted performance of mutual funds. He then investigates the relevant risk factors that contribute to and are able to explain differences in mutual fund performance by employing state-of-the-art statistical techniques. In this context, the critical issue is whether the superior performance of a portfolio manager in one period was due to his superior investment skills or simply the result of luck. Therefore, the pivotal question is whether or not portfolio managers are, on average, able to outperform persistently an appropriate benchmark model or whether certain capital market equilibrium mechanisms are responsible for their performance results. In contrast, the relevant issue for loser funds, i. e. funds that recently underperformed, is whether the investment performance mean reverts and improves over time when certain governance mechanisms are executed. It is hypothesized that the two most important factors that may drive these equilibrium processes are fund flows and manager changes.

The empirical part of his study offers the reader a detailed analysis of the performance and performance persistence of mutual funds in the United States. The findings and conclusion that the superior past portfolio performance of mutual funds vanishes in the next period is very important and reinforces the empirical results documented in the literature. In addition, also recently underperforming funds return to average performance levels in the course of the following year. Hence, the winner and loser funds seem to be exposed to some mean reverting processes that drive future fund performance to the average fund performance in the long run. This process is especially strong if the two equilibrium mechanisms, fund flows and manager changes, are intact. In the case that these mechanisms are absent, previous winner funds continue to significantly outperform recent loser funds while in the case that both mechanisms are prevalent the performance difference between these two groups of funds is virtually zero. Thus, fund flows and manager changes significantly reduce the persistence of mutual fund performance. These are extremely important empirical findings and insights from an academic as well as a practical perspective.

Overall, the theoretical analysis and the empirical results offer a number of interesting and important results and insights of the performance and performance persistence of mutual funds. Peter Lückoff provides with this research monograph a major contribution to the current academic research on mutual fund performance. I am convinced that these findings are of great interest to researchers and the international academic community and will have a significant impact on the future research of mutual fund performance. The insights of his study are also relevant also for investors, asset managers and portfolio management companies.

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