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Network centrality and delegated investment performance

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Abstract

We show a positive relation between network centrality and risk-adjusted performance in a delegated investment management setting. More connected managers take more portfolio risk and receive higher investor flows, consistent with these managers improving their ability to exploit investment opportunities through their network connections. Greater network connections are shown to be particularly important in reducing the diseconomies of scale for large managers who are well connected. We also use the exogenous merger of two investment consultants, which creates a sudden change in the network connections of the managers they oversee, to provide evidence that a greater number of connections translates into better portfolio performance.

JEL Classification: G10, G24, D85
Keywords: Asset Management, Networks, Investment Performance, Flows, Manager Skills

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