

# Greater transparency leads to better fund performance, new finance research shows

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(Phys.org) -- U.S. laws and regulations on investment management address potential conflicts of interest between investors and managers through disclosure requirements. Surprisingly little is known about the effectiveness of these standards in resolving such conflicts, says Greg Kadlec, R.B. Pamplin Professor of Finance in the Pamplin College of Business.

Kadlec co-authored a recent study that offers new [empirical evidence](#) on the role of disclosure, finding that greater transparency about a fund's operating expenditures lowers the fund's [conflicts of interest](#) and improves return performance.

Agency conflicts can arise whenever people delegate control of assets to others, Kadlec says. A particularly important agency conflict exists between shareholders and [managers](#) of a corporation. "Shareholders want managers to maximize the value of the corporation, whereas managers want to maximize their own welfare. This conflict can result in managers acting inefficiently or even corruptly with respect to the shareholders' interest."

The colossal failures of Drexel Burnham Lambert, Enron, Lehman Brothers, and the Madoff fund, he says, "all stem from agency conflict." Anticipating and resolving these conflicts improves the efficiency of corporations and capital allocation in the economy.

In their study, Kadlec and his co-authors Roger M. Edelen, of the

University of California, Davis, and Richard Evans, of the University of Virginia, investigate the role of disclosure in mutual fund agency conflicts by examining the two different ways that fund managers can pay for operating costs — approaches that differ greatly in transparency — and comparing their effects on return performance.

Their study, “Disclosure and Agency Conflict: Evidence from Mutual Fund Commission Bundling,” is published in the *Journal of Financial Economics*, 2012, 103, 308-326.

**More information:** Read more about Kadlec’s study in this story, “[Greater transparency leads to better fund performance](#)” in the [spring 2012 Pamplin magazine](#).

Provided by Virginia Polytechnic Institute and State University

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