

Summary of Inquire Europe research proposal

An Analysis Of Separate Accounts

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The purpose of this research project is to examine the characteristics and performance of separate accounts. There has been a large number of published works on performance measurement and performance predictability. Almost all the empirical results have been based on mutual fund data. In addition, the characteristics of mutual funds have been widely reported.

We intend to study the performance and characteristics of separate accounts. We have purchased a large database of approximately 10,000 separate accounts over a ten-year period. The database contains return data as well as data on expense ratios, turnover, management tenure, size, composition, and other variables. It also has data on separate accounts that stop reporting. After correcting the data for obvious errors, we expect to study several aspects of performance and the characteristics of separate accounts.

The first step in the process will be to study overall performance. It is a commonly held belief that separate accounts have lower fees and better performance than mutual funds. Performance will be studied using multifactor models as well as the accounts declared benchmarks to measure alphas. Can actively managed separate accounts outperform combinations of index funds with the same risk? How important are expense ratios and past performance in determining future performance? Are there other characteristics of separate accounts that help in predicting performance?

As part of this we will examine how predictability of performance is related to size and composition. Does performance deteriorate with size? Do separate accounts hold fewer stocks than mutual funds of the same type, and what is the impact of this on diversifiable risk and total risk?

While many of these questions have been, at least, partially answered with respect to mutual funds, separate accounts have not been subjected to the same degree of scrutiny.

In this project we hope to gain insight into the characteristics and performance of separate accounts in general and to aid the investor in choosing among separate accounts and other investment vehicles.