

Changing names with style: Mutual fund name changes and their effects on fund flows

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Abstract

We investigate the effects of conditional name changes in the mutual fund industry. Specifically, we examine whether mutual funds change their names to take advantage of the current hot investment styles, and what effects these name changes have on the flows in and out of the funds, and to the funds' subsequent returns. We find that name changes tend to occur in waves; funds tend to change their names to be associated with the current high return style and to disassociate themselves from the current low return styles. The year before a fund changes its name to reflect a current hot style or to move away from a current cold style, the fund experiences an average excess outflow of approximately -4% . The year after the name change these funds earn average cumulative excess flows of 28% and experience no increase in performance compared to their pre-name change performance. The increase in flows is similar across funds that change their underlying investment style and those that do not, adding support to a growing body of literature suggesting that investors are "irrationally" influenced by cosmetic effects.

Mutual funds offer a unique opportunity to study the behavior of individual investors via the examination of mutual fund flow data. This is important, since investors' asset allocation decisions across mutual funds may ultimately affect asset returns. For example, Goetzmann, Massa and Rouwenhorst (2002) document that factors extracted from the covariance matrix of mutual fund flows provide incremental information beyond broad-based asset class returns in explaining returns in the cross-section.

The fund flow literature has shown that investors tend to base their fund purchase decisions on prior performance (Spitz (1970), Smith (1978), Patel, Zeckhauser, and Hendricks (1991), and Warther (1995)). This performance-flow relationship is nonlinear in that investors direct their investments to funds that perform well in the recent past but fail to direct investments away from poorly performing funds (Ippolito (1992), Gruber (1996), Carhart (1997), Goetzmann and Peles (1997), Sirri and Tufano (1998), and Lynch and Musto (2000)). In addition, minimization of search costs appears to be important to investors: holding performance constant, funds that spend money to advertise their past good performance tend to attract more inflows than other funds (Sirri and Tufano (1998)); funds with more media attention tend to attract greater inflows (Sirri and Tufano (1998)); and funds which receive initial five-star rankings by Morningstar, Inc. experience increased flows (Del Guercio and Tkac (2001)).

Gruber (1996) investigates whether investors' flows in and out of mutual funds are "rational" to the extent that the investors experience an improved performance relative to fixed asset weights, or whether the flows are "irrational" in that they bear no relation to future fund performance. He finds that investors following a strategy of increasing portfolio weights in funds with increased flows, and decreasing portfolio weights of funds with outflows, earn positive risk adjusted returns, even after fees, and concludes that the aggregate patterns of investor flows are rational. In contrast, Zheng (1999) finds mixed evidence that increased investor flows are related to increased future performance. While he finds it is possible to earn abnormal returns by using flow information for small funds, across all funds, he finds no evidence that funds that attract bigger inflows can beat the market. Jain and Wu (2000) examine increases in flows related to funds that have experienced recent superior performance and advertise that fact in *Barron's* or *Money* magazine. They find that the advertised funds attract significantly greater inflows than a control group of funds, but find no evidence of excess performance in the post advertising periods.

Given the evidence in these papers on the link between fund flows and subsequent returns, the empirical evidence in support of investor “rationality” as it relates to flow patterns is mixed – with some studies suggesting a link between fund flows and future performance and others finding no evidence of such a link. Other studies suggest that salient news (advertising, media attention, and ratings) affects flows, and that this news and the associated flows are not related to future fund performance.

In this paper, we provide striking new evidence of seemingly irrational behavior on the part of mutual fund investors and evidence of timing behavior on the part of fund managers who appear to take advantage of the sub-optimal behavior of investors. Specifically, we analyze fund flow patterns around conditional name changes in the mutual fund industry. We define conditional name changes as name changes by mutual funds towards a particular style name when the corresponding style premium is up or away from a particular style name when the corresponding style premium is down. We examine what effects these name changes have on the flows in and out of the funds, and the funds’ subsequent returns. To summarize our results, we find that flows to funds increase dramatically when funds change their names to look more (less) like the current positive (negative) return styles. This relationship holds even for funds that do not materially change their holdings towards (away from) the style implied by their new (old) name.

How prevalent are such conditional mutual fund name changes? The *Financial Times* (see Wine and Sullivan, 2001) reports that after the end of the technology bubble in 2000, mutual fund companies changed the names of the funds under their control, to reflect a “value” orientation without changing the portfolio managed by the fund. According to the article:

“The portfolios remain much the same, but the names are a changing at a rapid rate. Hundreds of US mutual funds have altered their names this year to reflect the more sober mood of the markets – “New Economy” and “Growth” are out, and “Value” is definitely in. “Investment companies are ripping names from the headlines and slapping them on funds that haven't changed a bit,” said Russ Kinnel, director of fund analysis at Morningstar, which tracks the performance of mutual funds. Funds which were last year boasting of their exposure to the high-

technology sector are this year reassuring potential investors with names that suggest an ability to find “value” amid the tech wreckage.”

We identify a sample of 296 equity mutual funds that make a style name change over the April 1994 - July 2001 period. Funds are defined as having a style name change if the new name is different from the old name by one of the following style identifiers: “Value”, “Growth”, “Small” or “Large.”

Name changes for these funds appear to be motivated by reductions in fund inflows prior to the name change. The funds in our sample experience a significantly negative fund flow over the six months before the name change, compared to other funds from the universe of mutual funds, matched on SMB and HML.¹ Before the name change, their returns are more volatile and they charge lower marketing 12b-1 fees. They are similar on most other characteristics - the median fund in our sample is not noticeably smaller and it does not earn significantly higher raw or excess returns. When funds do change their names, the new name is likely to be either associated with the current “hot” style or away from the current “cold” style. For example, as the value or size premium increases (decreases), funds add (delete) the corresponding style identifier to (from) their names.

To examine the effects of name changes on fund flows, we use an event study framework. To create a control sample of funds used to compute “excess flows” to the funds in our sample, we use the relatively new and innovative methodology of “propensity score” matching (Villalonga (2001), Hillion and Vermaelen (2002)). This matching method has the advantage of allowing us to form a control group of funds that are screened along multiple dimensions, not just a few, allowing a cleaner test of the effects of fund name changes on flows. For analyzing fund flows, this matching method is important, since, as discussed above, the academic literature documents numerous factors that are important in determining fund flows.

When funds do change their names, they earn significantly positive abnormal fund flows. Flows in excess of those earned by a matching fund are on the order of 22% in the one-year after the name change month for all of the funds in our sample. To put this into perspective, the

¹ SMB is a zero-investment portfolio that is long on small capitalization (cap) stocks and short on big cap stocks. Similarly, HML is a zero-investment portfolio that is long on high book-to-market (B/M) stocks and short on low B/M stocks. We thank Kenneth French for making the data available. Details about the construction of the variables can be obtained from mba.tuck.dartmouth.edu/pages/faculty/ken.french/.

average fund in our sample has total net assets of \$299 million in the month before the name change. At the end of the year, the increase in total net assets, *in excess of the value earned by a matching mutual fund*, is \$67 million. With 296 funds in our sample, the value created by name changes is \$19.92 billion over the seven-year period in our sample.

The increase in fund flow is almost entirely concentrated however, on funds that make a “hot” style name change – changing towards (away from) a particular style when the corresponding style premium is up (down). These funds earn cumulative abnormal flows (CAFs) of 28% in the year after the name change month, as compared to a statistically insignificant increase for funds that made “cold” style name changes – changing towards (away from) a particular style when the corresponding style premium is down (up).

We test whether there is a difference in flows when the name change is cosmetic in the sense that the fund simply changes its name but keeps its portfolio holdings constant, as opposed to non-cosmetic name changes, when the fund changes both portfolio holdings and name. We define cosmetic name changes according to a distance measure, by calculating the sum of the squared differences on SMB and HML loadings in the pre- and post-name change periods. We find no difference in excess flows across the cosmetic and non-cosmetic name change types. Funds making cosmetic and non-cosmetic name changes earn CAFs of 37% and 27%, respectively. After controlling for performance and size, the funds that experience the greatest increase in flows are those that switch toward the current hot style (or away from the cold style) and those that spend the most money on marketing their new name.

Our results are consistent with a simple story. Funds that have not spent much on marketing fees and have experienced a significant drop in their fund inflows change their names to earn an increased flow from being associated with the current glamour style. We find that the funds with the greatest increases in post-name change flows are associated with the greatest increases in marketing expenditures. The fact that increased flows are associated with increased marketing expenditures is consistent with Jain and Wu (2000) and Sirri and Tufano (1998). However, in those two papers, increased marketing serves to highlight a fund’s recent high performance. In contrast, the funds in our sample are quite average in terms of pre-name-change performance. Thus, investors appear to be deceived by the name change funds advertising their “new” style and are deceived even more by the name change funds that spend more on advertising. In contrast to the fund managers, who are clearly rewarded via increased fee revenue, the investors

in such name change funds are not rewarded in terms of increased fund performance. We find that after a name change, both the average fund's return above its matched fund and its three-factor alpha are essentially zero.

Our result that investors' buying and selling behavior towards mutual funds is influenced by name changes is consistent with a growing body of literature that documents that investors are irrationally influenced by cosmetic effects. For example, Hirshleifer (2001) discusses recent evidence that irrelevant, redundant, or even old news affects security prices when presented saliently.² In addition, our results that mutual fund managers time their name changes to take advantage of shifting investor sentiment is consistent with recent research that managers appear to understand stock market inefficiencies, and take advantage of them through corporate actions such as equity issues, dividend issuance decisions, and mergers.³

The paper is organized as follows. In Section I, we discuss the data sources used to create the sample and describe the event study methodology. In Section II, we present the results, perform various robustness checks, and test various hypotheses related to the determinants of the fund flows. Section III concludes.

I. Data and methodology

We use data from CRSP, Lipper, and Morningstar over the 1994 to 2001 period to identify name changes.⁴ We use the CRSP mutual funds database to create our initial cut of name change funds. We sort all funds in CRSP on their ICDI number, and then keep track of name changes in the NAME field for the same ICDI number. The ICDI numbers, similar to the permanent numbers (PERMNO) in the CRSP individual stock database, are permanent, and thus allow us to track name changes for a given fund. This provides us with 22,367 name changes. Next, we screen on funds that have an apparent change in the fund's investment style as indicated in the fund's old/new name. Funds are defined as having a style name change if the new name is different from the old name by one of the following style identifiers: "Value/Val", "Growth/Gr/Grth", "Small/Sm" and "Large/Lg". If a new name includes any of these phrases

² See Cooper, Dimitrov and Rau (2001), Huberman and Regev (2001), and Rashes (2001).

³ See Baker and Wurgler (2000), Baker and Wurgler (2002a), Baker and Wurgler (2002b), Baker, Greenwood, and Wurgler (2002c), and Shleifer and Vishny (2002).

⁴ Due to the lack of monthly data in CRSP for some of the variables used in our study, our sample starts in 1994.

and the old name does not, then the name change is classified as a “to” name change event. Similarly, if any of these phrases are dropped in the new name, then the name change is classified as a “from” name change event. After retaining only funds with style name changes in the CRSP data, we are left with 1,235 name changes that are associated with an apparent change in the fund’s investment style as indicated in the fund’s old/new name. This number includes multiple name changes by the same fund over time and name changes in different share classes in each fund.⁵

We then use data provided by Morningstar and Lipper to identify the month of the name change. The data from Lipper and Morningstar include both the new and old names, along with the effective dates of the name changes. We retain the fund in the sample only if the dates of the name change are within one month of each other in the Morningstar and Lipper databases, using the earlier of the two dates as the announcement date if the dates do not match. We also impose a restriction that a fund must have at least six months of data on CRSP prior to the name change month, to allow us to estimate pre-name change alphas and other tests. We also retain only the primary share class of each fund, resulting in 348 style name changes over the April 1994 to July 2001 period. Lastly, restricting the population to only equity mutual funds yields a final sample of 332 name changes.

Table 1 Panel A describes the sample selection process. As some name changes involve more than one style, these 332 name changes are associated with 296 funds. For example, we identify 108 (128) cases where the term “value” (“growth”) is added to or dropped from the fund’s name. For some specific examples of name change funds, the Appendix lists a random sample of 25 funds that changed their names, including the fund’s old name, new name, and resulting name change category. For example, the “Gabelli Global Interactive Couch Potato Fund” changed its name to “Gabelli Global Growth Fund,” adding a “growth” to its name, thus earning itself a name change categorization of “To Growth”.

Many of the name changes in our sample correspond with large changes in the value/growth and small cap/large cap premiums over this period. Table 1 Panel B reports data on the quarterly distribution of these name changes over our sample period. Name changes tend to occur in waves: 45% of the funds in our sample make a name change in 2000-2001 alone. More

⁵ A fund name change involves name changes in all the share classes of the fund. Each share class has a separate ICDI number.

interestingly, funds tend to change their name to associate themselves with the current high return style and/or to disassociate themselves from the current low return styles. For example, in the fourth quarter of 2000, the value portfolio earned 22.4% in excess of the growth portfolio; over the subsequent quarter (Q1 2001) 12 funds changed names to include “value” in the new name and 7 funds dropped “growth” from their names. During the same period, only 2 funds changed names to include “growth” in the new name and 2 funds dropped “value” from their names. We analyze the relationship between lagged style premiums and subsequent name changes more formally in the next section.

II. Results

A. Descriptive Statistics

Table 2 Panel A reports the mean and median characteristics both for the name change fund sample and for the universe of all other equity funds, matched on the date of the name change. We report data on lagged returns, excess returns, standard deviation of returns, total net assets, fund flows, and expenses.

As in Sirri and Tufano (1998), we define the fund flow over the period $t-1$ to t by the formula

$$\text{Fund flow} = [\text{TNA}_t - (1+r_t) \text{TNA}_{t-1}] / \text{TNA}_{t-1}$$

where TNA_t is a fund’s total net assets at time t , and r_t is the fund’s return over the prior month. The Fama-French three-factor alpha (Fama and French, (1993)) is calculated for each fund using 24 months of data prior to the date of the name change, with a minimum of 6 months of data required. The total load is the total of all maximum front, deferred, and redemption fees applied to a fund. The expense ratio (over the calendar year) is the percentage of the total investment that shareholders pay for the mutual fund’s operating expenses. The 12b-1 fee is a charge which is deducted from the underlying mutual fund’s total assets to cover the cost of distribution and marketing. The value reported is the actual annual percentage of total assets attributed to this expense as of fiscal year end as reported in the prospectus.

Prior to the name change, both on a mean and median level, the name change funds appear to charge slightly lower 12b-1 fees, earn higher six-month returns and experience a marginally

greater volatility than the corresponding fund in the equity universe. Most importantly, the name change funds experience negative fund flows over both the one- and six-month periods before the name change, in comparison to the average fund in the universe.

To check whether these funds are typical of funds in the universe, we report the distribution of characteristics relative to the universe of all equity funds in Panel B. Quintile 1 (Q1) is the smallest and 5 the largest. The panel also reports p-values from a χ^2 one-sample test to test if the characteristics of the mutual funds are uniformly distributed across the quintiles. The name change sample funds earn similar one-month lagged returns and excess returns (as measured by the Fama-French three-factor alpha) as the universe – the one-sample test is unable to reject the hypothesis that the quintile distribution is uniform. They earn higher buy-and-hold returns over the six months before the name change – more than half the funds fall into the largest 2 quintiles. They are typically larger – approximately half the funds fall into the largest 2 quintiles for total net assets. They have higher standard deviations – more than $\frac{2}{3}$ of the sample falls into the upper three quintiles. Finally, they experience a much lower fund inflow than typical in the universe – both over one month and six months, approximately half the name change funds lie in the smallest two quintiles.

Our data on expenses and loads are typically discrete – there is significant clustering of loads and fees around 0%, 0.5%, and so on. Panel C therefore reports load and expense data for the mutual fund sample and the universe of equity mutual funds, sorted into absolute bins.⁶ The panel also reports p-values for a Mann-Whitney nonparametric test to test the equality of the distribution for the sample and the universe. The sign of the statistics for all the three variables are negative - the distribution of these variables for the name change funds are on the left of those of other funds. In other words, the name change funds have significantly lower expenses and 12b-1 fees before the name change. The total load is marginally significant at the 6% level.

⁶ According to SEC rules, while asset-based 12b-1 fees may not exceed 0.75 percent annually, service fees of no more than 0.25 percent may be added to pay for continuing shareholder service. Thus, actual maximum 12b-1 fees are 1 percent per year.

B. What type of funds change their names and when?

To get a more precise idea of what kinds of funds change their names and when they choose to do so, Table 3 reports results for two types of logistic regressions. Panel A investigates what kinds of funds choose to change their names. For each name change fund, we identify at least 100 funds with a similar investment style that did not change their names. To identify funds with the same investment style as the name change fund, we estimate the Fama-French three-factor model for every equity fund in CRSP using data up to two years prior to the name change month for each name change fund. Funds that do not change their names are identified as having a similar investment style as the name change fund if their loadings on SMB and HML have the same sign as those of the name change fund and if the differences in the corresponding loadings are in a given range. Specifically, a fund with a beta loading on the SMB factor, β_{SMB} , and a beta loading on the HML factor, β_{HML} , is considered a fund with a similar investment style as the name change fund if: $(\beta_{\text{SMB}} / \beta_{\text{nc,SMB}}) \in (0.90, 1.10)$ and $(\beta_{\text{HML}} / \beta_{\text{nc,HML}}) \in (0.90, 1.10)$ where $\beta_{\text{nc,SMB}}$ and $\beta_{\text{nc,HML}}$ are the SMB and HML loadings of the name change fund respectively. If this range does not provide at least 100 matching funds then the range is increased sequentially until at least 100 matching funds are obtained. After the match, each name change fund is assigned a dummy of 1 and the matching funds are assigned zero. This process is repeated for every name change fund and the resulting sample is stacked to estimate the cross-sectional logistic regression in Panel A.

Consistent with the patterns reported in Table 2, the mean fund flow over the six months prior to the name change is significantly negatively related to the likelihood that a fund will change its name. In addition, the fund volatility is positively and the 12b-1 marketing fees are negatively related to the likelihood of a name change. Fund managers running volatile funds, who have historically spent less on marketing, are more likely to change the names of their funds when fund inflows drop. The overall expense ratio is marginally negatively related to the likelihood of a name change. In contrast to Table 2, where we compare these funds to the universe of equity mutual funds, name change funds seem to be associated with a higher overall load, when compared to funds matched on SMB and HML. This makes sense intuitively; in the cross-section, matched with similar style funds, the name change funds may experience lower flows prior to the name change in part because they charge higher overall loads.

In Panel B, we investigate, only for the sample of name change mutual funds, at what point in their life cycle do the funds choose to change their names. We report results for a time-series logistic regression for each name change fund. We use all the time series data available for these funds and regress the lagged explanatory variables on a dummy for the name change month. In other words, for every name change fund, the left hand side variable takes the value 1 at the name change month and zero in all other months. We report separate regressions for “to” style changes and “from” style changes.

The most important determinant of a name change is the fund flow – across all our specifications, the lagged six-month mean fund flow is significantly negatively related to the likelihood that a fund will change its name. As in Panel A, the funds experience higher volatilities than their historical average. In contrast to Panel A however, the lagged 6-month buy-and-hold returns earned by the fund are significantly positively related to the likelihood of a name change. In the “to” (“from”) style changes, in 2 out of 4 specifications, funds decide to switch when the corresponding style is hot (cold). In other words, when a particular style premium is earning a high six-month lagged buy-hold return, the fund is more likely to switch to this style. Similarly, when the style premium is low, the fund is more likely to switch from this style. From the standpoint of the fund manager, the results in Panel B of Table 3 tell a simple story: the inflows to a fund may be down because of the fund’s recent volatility in raw returns, and because the fund is not outperforming the market on a risk-adjusted basis (as seen in the Fama-French alpha from Table 2). Thus, even though the fund’s performance is on par with peer funds, the fund is suffering outflows (perhaps caused by the raw return volatility). In addition, the fund company may also be concerned by the fact that the fund is still suffering net outflows even though the fund’s raw returns have increased. In combination, these factors may prompt the fund to change its name.

C. The impact of name changes on excess fund flows

As discussed in the introduction, several factors have been shown to affect fund flows. To control for these factors, we use a propensity score algorithm (see Villalonga (2001) or Hillion and Vermaelen (2002)) to estimate excess flows to our sample. Propensity score matching

algorithms are becoming increasingly popular to construct suitable control groups in non-experimental studies. This is because no constraints need to be imposed on the matching variables. More importantly, they accommodate a high number of matching variables. The task of constructing a matched sample becomes impossible when there are several characteristics in which the treatment and control groups differ. Since we need to control for fees, loads, performance, and total net assets (as dictated by the prior flow literature), the propensity score methodology offers a parsimonious approach to obtaining matching funds to compute excess flows.⁷

Using individual fund data from the two-year period prior to the name change, we estimate fund factor loadings on the Fama-French three-factor model. For each name change fund in our sample, we obtain at least 100 closest no-name change funds that have similar loadings on SMB and HML. We assign the name change fund a dummy of 1, and others 0. To estimate a propensity score for each fund, we then estimate a logistic regression using the following variables: the one-month lagged log of total net assets, six-month buy and hold return to the fund before the name change month, average fund flow and standard deviation of returns over the six months before the name change, the 12b-1 marketing fees before the name change, and the Fama-French three-factor alpha of the fund (calculated over the two years before the name change). For each name change fund, a matching no-name change fund is identified as the fund with the closest propensity score to the name change fund. Excess fund flows are computed for each name change fund in our sample with respect to their matching fund.⁸

Panel A of Table 4 reports cumulative excess flows to all funds, hot style name change funds and cold style name change funds. Hot style name changes are defined as name changes towards (away from) a particular style when the corresponding style premium is up (down). Cold style name changes are defined as name changes away from (towards) a particular style when the corresponding style premium is up (down). To make these classifications, we use size and B/M quintile portfolio returns from Kenneth French's website. For "value" name changes, we use the

⁷ An alternative methodology to compute excess flows would be to develop a model of expected fund flows based upon multiple factors (such as performance, fees, etc.) and calculate the excess flows to a fund as the realized flows minus the expected flows. However, a potential weakness to this approach is that if there are shocks that change expectations around the name change, they would result in non-stationarity in the model's estimated parameters and thus give us incorrect expected flow estimates. In contrast, the propensity score matching method may be more accurate, given that most unanticipated shocks should be impounded in both the name change fund and the matching fund.

⁸ Later in the paper we also describe our results using raw and median flow measures.

highest B/M quintile portfolio, for “growth,” we use the lowest B/M quintile portfolio, for “large,” the highest size quintile portfolio and for “small,” the lowest size quintile portfolio respectively. For every name change fund, in the event month, we calculate the holding period return to the corresponding style portfolio over months -6 to -1 relative to the name change. If a name change is a “to” (“from”) name change and the lagged buy-and-hold return to the corresponding style is positive, the name change is classified as a hot style (cold style) name change. Similarly, a “to” (“from”) name change accompanied by a negative lagged six-month holding period return to the corresponding style, is classified as cold style (hot style) name change.

We calculate cumulative abnormal flows (CAFs) to measure the fund flow performance over various event windows before and after the name change periods. In each event month, individual fund percentage abnormal flows over the corresponding matching funds are averaged to obtain an overall percentage flow measure for that month. Then these monthly flows are cumulated for the specified event period to obtain a CAF for that period. As reported in Table 4, Panel A, funds on average have negative (although not significant) cumulative abnormal flows before the name change.

In contrast, in the year after the name change, the increase in abnormal flows is quite striking. Cumulative abnormal flows in excess of those earned by a matching fund are on the order of 22% in the year after the name change month. The increase in fund flow is almost entirely concentrated however, in funds that make a hot style name change. These funds earn significant cumulative abnormal flows of almost 18% in the three months after the name change month, as compared to 1.3% for funds that made cold style name changes. Over the year after the name change, hot style funds earn CAFs of 28%, as compared to an insignificant 7.6% for cold style funds. Before the name change, the two types of funds earn flows insignificantly different from each other. Over all periods after the name change however, hot style funds earn significantly higher abnormal flows than cold style funds. The difference is also illustrated in Figure 1. Note that in Figure 1, the increase in fund flows appears to begin before the name change. This is an artifact of the discrete nature of the fund flow data.

We test whether there is a difference in flows when the name change is “cosmetic” in the sense that the fund simply changes its name but keeps its portfolio holdings constant, as opposed

to “non-cosmetic” name changes, when the fund changes both portfolio holdings and name. An efficient market should not reward a cosmetic name change with an increased fund flow.

We define cosmetic name changes according to a distance measure as follows: we use two years of monthly data before and after the name change (or all available data if less than two years) to estimate beta loadings for the Fama-French three-factor model in the pre- and post-name change periods. From these beta estimates, we compute the sum of the squared differences on pre and post SMB and HML loadings for every fund. Then, we compute quintile cutoffs and place the funds in quintile bins. Quintile 1 is defined as the cosmetic quintile and quintile 5 (with the highest total squared difference) is defined as the non-cosmetic quintile.⁹ Panel B reports cumulative excess flows to cosmetic and non-cosmetic name changes. Inconsistent with the hypothesis that cosmetic name changes should not earn abnormal fund flows, we find that over the three months after the name change, they earn significantly higher abnormal flows than the non-cosmetic quintile funds. Over the three months, the two types of funds earn CAFs of 26.6% and 11.8% respectively. Over longer horizons, we find no difference in excess flows across the cosmetic and non-cosmetic name change types. Funds making cosmetic and non-cosmetic name changes earn CAFs of 37% and 27%, respectively, over the year after the name change. The relationship between distance and abnormal fund flow appears to be U-shaped, with both the extreme cosmetic and non-cosmetic funds earning the highest abnormal flows and the intermediate funds in quintiles two, three and four earning lower fund flows relative to the extreme quintiles (not reported in the tables). Figure 2 illustrates the difference in CAFs for the extreme cosmetic and non-cosmetic quintiles.

Table 4, Panel C.1 and C.2 report cumulative excess flows for a two-way sort between cosmetic and non-cosmetic hot and cold name changes, respectively. Again, there is no evidence that cosmetic name change funds earn lower fund flows than non-cosmetic name change funds. The only obvious pattern is that hot style name change funds earn significantly higher CAFs than cold style name change funds. Figure 3 illustrates this pattern. It is interesting to note that neither the hot nor the cold style name changes appear on average to be making the change to reflect a

⁹ In an absolute sense, even the name change funds in our sample that have large distance measures (i.e., quintile 5 funds), are relatively “cosmetic” when we compare them to the distribution of loadings from the universe of all funds. For example, the 90th percentile point for the betas of “To Value” name change funds (using the 5th quintile portfolio of B/M to estimate the betas) is 0.84. In contrast, the 90th percentile beta for all funds in the CRSP universe is 1.0. Similarly, Lakonishok, Shleifer, and Vishny (1992) show that the market betas of “value” funds are close to one and their returns are not correlated with a value portfolio.

true change in portfolio holdings. This is evident from Table 4, Panels C.1 and C.2 in that the distribution across cosmetic/non-cosmetic quintiles is fairly uniform within both the hot and cold style panels.¹⁰

Finally, it appears that the significant differences in fund flows across cosmetic and non-cosmetic funds over the first three months after the name change are not explained by differences in advertising as measured by 12b-1 fees or loads (not reported in the tables). There is no statistical difference between the 12b-1 fees or loads for quintile 1 and 5 in Panel B, C.1 or C.2. In addition, the lower flows in the middle quintiles are not explained by decreased advertising; if anything, these quintiles have slightly greater 12b-1 and loads than the extreme quintiles.

D. Robustness checks

We examine raw flows to funds to check if the patterns we see are artifacts of our matching methodology. Our results are qualitatively unchanged. Funds experience significantly positive raw fund flows in the year after the name change. Raw fund flows to all name change funds are on the order of 21% in the year after the name change month. Again, the increase in fund flow is almost entirely concentrated on funds that make a hot style name change. These funds earn significant cumulative raw flows of 25.2% in the year after the name change month, as compared to 10.7% for funds that made cold style name changes. The difference between the two types of funds is statistically significant across all periods after the name change month.

Consistent with the abnormal flow results, we find that over the three months after the name change, cosmetic name change funds experience significantly higher raw flows than the non-cosmetic funds, at 29.5% and 12.1%, respectively. Over longer horizons, there is no difference in raw flows across the two types of funds. Funds making cosmetic and non-cosmetic name changes experience raw flows of 39% and 22%, respectively, over the year after the name change.

We also examine excess fund flow relative to the median flow of all equity mutual funds. Again, our results are qualitatively unchanged. As before, cosmetic fund flows are significantly higher than non-cosmetic flows in the three months after the name change, though the difference

¹⁰ We obtain these two panels by splitting each quintile of funds in Panel B into hot and cold classifications. Thus, there is no guarantee that the “quintiles” in panels C.1 and C.2 will have the same number of funds in each bin.

ceases to exist across periods longer than three months. The U-shaped relationship between distance and abnormal fund flows disappears in this measure of fund flows.

Jayaraman, Khorana, and Nelling (2002) find significant changes in shareholder wealth and negative fund flows in the year after mutual fund mergers. We perform tests to make sure that our excess flows are not being biased in month one of the name change due to a mechanical increase in flows from a fund merger. We do not believe that it is likely that our fund flow effects are related to fund mergers, since we require the fund ICDI number to be the same across the name change period. Nonetheless, we estimate the abnormal flows, using propensity-score matched funds, for months one to twelve after the name change, removing month zero from the abnormal flows. We find that the results are quite robust to this control; from months one to twelve, all name change funds experience an increase in excess flows of 17.8% (t-statistic = 4.87). Again, hot name changes earn much greater flows than cold changes, at 23.1% and 6.4%, respectively.

Finally, we control for fund manager turnover. It may be the case that new managers attract increased flows, perhaps due to these funds advertising their new managers, and investors subsequently believing that new management will bring increased performance to the fund. Thus, increases in fund flows would not be due to the fund's name change, but rather to investor reaction to the announcement of new fund management. To control for this potential upward effect on fund flows, we estimate abnormal flows for Table 4, Panel A, by removing funds that experienced changes in fund management. Using the MGR_DATE variable in the CRSP mutual funds database, we identify 44 cases where there was a change in management during the six months surrounding the name change. Interestingly, these funds experienced significantly more negative flows prior to the name change relative to funds that did not experience manager turnover¹¹ – perhaps fueling the manager's demise. For the remaining 252 funds, the results look very similar to the original Table 4 Panel A; the CAF during the year after the name change is 21.4% (t-statistic = 5.05) for all name changes, and again the difference between hot and cold style name changes are statistically significant, at 29.33% for hot, and 3.4% for cold style changes, respectively.

¹¹ The 12-month CAF prior to the name change for a fund that also experienced a change in management is -17.18% while the 12-month CAF for the other name change funds is -1.17%, with the difference in flows being statistically significant.

E. What determines excess flows to the funds?

Table 5 reports results for regressions of post-name change cumulative abnormal flows to name change funds in the three months after the name change on a number of variables. The first variable is a hot style dummy (defined as 1 if the name changes towards (away from) a particular style when the corresponding style premium is up (down) and 0 otherwise). To proxy for the cosmetic/non-cosmetic classification, we use a distance measure, which is the sum of the squared differences on the pre and post name change HML and SMB beta loadings in the Fama-French three-factor model. We also include a “to” style dummy (defined as 1 if the move is to a particular style and zero otherwise) to check if the fund flows are different across “to” and “from” style name changes. We control for the prior performance of a fund by including the Fama-French three-factor alpha calculated over -24 to -1 months before the name change and the excess abnormal buy and hold return over the matching fund from the -3 to -1 period before the name change as independent variables. Other control variables include the cumulative abnormal flow over the matching fund from the -3 to -1 period before the name change, changes in 12b-1 fees, total load and expense ratios between the three months before to the three months after the name change, and the mean log (total net assets) over the -3 to -1 period before the name change.

Consistent with prior literature, an important determinant of fund flows is prior performance. The Fama-French three-factor alpha and the buy-and-hold excess returns over the matching fund are both significant in explaining the post-name change CAFs to the name change funds, though the Fama-French alpha becomes insignificant if both measures are used. Size is another important determinant. The log of total net assets is significantly negatively related to the subsequent abnormal fund flow to the fund.

Consistent with the results in Table 4, the distance measure is never significant in any regression in Table 5. Cosmetic and non-cosmetic name change funds earn similar fund flows.¹² There is no difference between “to” style changes and “from” style changes. Also consistent with Table 4, the hot style dummy is statistically significantly related in all the models to the CAFs

¹² We also define another cosmetic variable related to whether or not the holdings of a fund (as defined by the funds loadings on HML and SMB) are related to the style implied in the funds new name. When we include this variable in the regressions in Table 5 to explain abnormal flows, it is not significant, suggesting that fund investors do not differentiate between funds that actually change their holdings to more closely match their new name and funds whose holdings do not match the style implied in their name.

earned by the fund. Funds changing their names to hot styles earn significantly higher flows than funds changing their names to cold styles.

Finally, the change in 12b-1 marketing fees is positively and significantly related to the cross-section of fund flows in the post name change period, whereas the change in loads and change in total expenses are not. The fact that increased flows are associated with increased marketing expenditures is consistent with Jain and Wu (2000) and Sirri and Tufano (1998).

From a fund manager standpoint, it is interesting to examine how fund inflows are affected by the significant variables from the CAF regression in which the manager has control. These control variables likely include the decision on the fund's new name (hot or cold) and how much money to spend on advertising the new name. The fund manager may have little control over the fund's short-term performance (although this point is certainly open to debate) and the size of the fund. Thus, we sort hot and cold name changes into quintiles based on 12b-1 fees and loads.¹³ Sirri and Tufano (1998) discuss how both loads and 12b-1 fees may play important roles in reducing investors' search costs and thus promoting increased fund flows. Jain and Wu (2000) find that funds that advertise their good performance earn an increase of approximately 5% in next year's fund flows. Our 12b-1 fee sorts are meant to capture the effect of increased advertising. We include loads because the 12b-1 fees are sometimes used in combination with contingent-deferred sales charges to fully or partially reduce front-end loads (Haslem (2003)). For both hot and cold funds, we expect that funds with high levels of advertising should experience increases in inflows, with the increase being greater for hot funds. In contrast, for funds with low levels of advertising, we expect no increase in flows for cold funds and an increase for hot funds (if in fact investors target these funds because of the style suggested in the fund's new name).

For the cold name changes, we find abnormal flows of -6.72% (20.45%) one year out after the name change for the low (high) quintile of 12b-1 fees, with the difference being statistically significant (these numbers are not reported in the tables). When we sort on total loads, we find that higher load funds do have greater flows, but consistent with the regression results, the difference in flows across low and high loads, for both cold and hot name changes, are not statistically significant. Thus, cold name changes that take place without increases in advertising

¹³ The 12b-1 fees and loads are clustered near zero (see Table 2, Panel C). Thus for these "quintile" sorts, the bottom quintile includes all zero observations, and the remaining four "quintiles" are populated with an equal number of funds with non-zero fees and loads.

do not have increased flows, and cold name changes accompanied by big increases in advertising increase their next-year flows significantly. In addition, the high inflow's to the top quintile 12b-1 fee cold name change funds are not due to good performance; in the year after the name change, these funds have average monthly Fama-French three-factor model alphas of -0.14% .

In contrast, hot name change funds in the bottom quintile of 12b-1 fees experience statistically significant increases in flows of 11.36% while paying out zero advertising expenses. This is quite dramatic, since these funds do not exhibit superior risk-adjusted performance after the name change (their monthly 3-factor alpha is -0.13%) and spend little or no money on advertising. Hot name change funds in the top quintile of 12b-1 fees experience statistically significant increases in flows of 33.97% , with the flow difference between quintile one and quintile five 12b-1 fees being statistically significant. Similar to the low advertising funds, these hot-style-high-advertising funds do not experience abnormal returns following the name change (their monthly 3-factor alpha is -0.10%). In Jain and Wu (2000) and Sirri and Tufano (1998), increased marketing serves to highlight a fund's recent high performance. In contrast, the funds in our sample are quite average in terms of pre and post name-change performance. Thus, investors appeared to be deceived by the funds advertising their "new" style and are deceived even more by the name change funds that spend more on advertising.¹⁴ Thus, the implication for fund managers desiring to increase flows is unambiguous: make a hot style name change and advertise it if you want the biggest possible increase in flows.

Finally, in Table 6 we also report the average monthly change in pre-year-to-post-year characteristics of the name-change funds. There is a significant increase in the monthly fund flow from -0.26% to 1.86% across all funds. Again, this increase is mainly concentrated among hot style changes – after the name change, these funds earn an increased monthly fund flow of 2.68% relative to the year before the name change. In contrast, cold style name changes earn a statistically insignificant increase of 0.73% . Consistent with the flow increase, the total net assets increase as well. The load and expense for the average fund does not change significantly over the period.

¹⁴ In related work, Kumar (2002) examines the style switching behavior of individual investors trading individual stocks. Consistent with our results, he finds that individual investors tend to formulate their demands at a style level (value and growth, small and large) and change portfolio weights between styles on the basis of past relative performance.

After the name change, the funds do not perform better relative to their pre-name-change performance. There is evidence that they actually perform worse. The raw returns to the name change funds drop significantly across all categories of funds. The average name change fund earns monthly returns of 1.36% in the year before the name change. This drops to 0.42% in the year after. Hot style name change funds show a drop from 1.44% to 0.32% in the year before and after the name change respectively. Cold style funds show a smaller drop from 1.29% to 0.51% over these two periods. This has an effect on the total net assets figures reported in Table 6 for the two types of funds. While hot style name change funds earn significantly higher fund inflows than cold style name change funds, the lower raw returns they earn on average from the year before to the year after the name change, relative to the cold style funds, imply that the total net assets in the hot style name change funds increase on average from \$294.1 million to \$311.05 million – an increase of 5.8%. In contrast, total net assets for the cold style name change funds increase from \$260.28 million to \$310.06 million, an increase of 15.7%.¹⁵ Excess returns show a more mixed pattern. While the Fama-French three-factor alpha drops from -0.05% to -0.17%, the excess returns over their matching funds are similar, showing an insignificant increase from 0.06% to 0.18%. There are no significant differences across the pre- and post-excess returns for the hot and cold style funds respectively.

III. Conclusions

We identify a sample of equity mutual funds that make a style name change over a seven-year period. The funds in our sample experience a significantly negative fund flow over the six months before the name change compared to other funds in the universe of mutual funds, matched on SMB and HML. They also have more volatile returns and charge a lower load, especially a lower marketing 12b-1 fee.

¹⁵ The larger percentage increase in total net assets (TNA) for the cold style funds relative to the hot style funds is due to less negative pre-to-post name change raw returns for the cold funds and to a large outlier fund in the cold style sample. When we remove the largest cold style fund (TNA = \$8.47 billion) and hot style fund (TNA = \$6.98 billion) based on TNA prior to the name change, the average TNA value before and after the name change for the cold style funds is \$214 million and \$224 million, respectively. The hot style average TNA value before and after the name change is \$255 million and \$283 million, respectively. The before and after flows for both hot and cold style funds are virtually unchanged by removing these two funds.

When they do change their names, the funds earn significantly positive abnormal fund flows. Flows in excess of those earned by a matching fund are on the order of 22% in the one-year after the name change month. The increase in fund flow is almost entirely concentrated however, on funds that make a hot style name change. These funds earn cumulative abnormal flows of 28% in the year after the name change month, 20.4% more than funds making cold style name changes. There is no difference in excess flows across cosmetic and non-cosmetic name change types.

Both performance and total net assets are significant in determining abnormal fund flows to these funds – after a name change, larger funds attract less flows and better performing funds attract more flows. Even after controlling for these two factors however, hot style name changes are significantly positively related to the magnitude of the abnormal flows. In addition, the change in 12b-1 marketing fees also explains a significant proportion of the flows to these funds.

To summarize our evidence, funds that have not spent much on marketing fees and have experienced a significant drop in their fund inflows, change their names to earn an increased flow. Part of this increase is due to the increased advertising associated with the name change. However, there is no relation between the degree to which the fund actually changes its portfolio holdings and the increase in fund flows. Instead, the fund flow seems to be driven almost entirely by changes into hot styles.

Sirri and Tufano (1998) find that consumers tend to flock to funds with recent superior performance, despite the evidence in Carhart (1997) that mutual fund managers do not exhibit short-term persistence once rewards to following mechanical strategies such as value and momentum investing are controlled for. Building on these results, our findings suggest that not only do fund investors behave less than optimally in ignoring Carhart (1997), but that a simple and appropriately timed name change can easily trick fund consumers into believing that a fund belongs to a current hot style. On average, the investors in these hot name change funds lose money after the name change on a raw return basis, and are no better off on a three-factor model basis. Thus, given that the average switching costs are relatively high (total loads, expenses and fees are about 3.75%), investing in these name change funds appears to be suboptimal behavior on the part of mutual fund investors. Whether the reader believes that this is evidence of “irrational” investor behavior, or just extremely informationally constrained investors being

taken advantage of by smart managers, our results nonetheless suggest policy implications related to better fund disclosure requirements. Data on actual portfolio holdings by mutual funds is hard to come by. As the *Wall Street Journal* (see McDonald, 2002) reports:

“So far this year the Investment Company Institute (ICI), the fund industry's largest trade group, has asked corporate managers to: speed up their earnings reporting; be more open about corporate insider trading; and seek shareholder approval for stock option plans, among other corporate governance initiatives. In a puzzling twist, however, the ICI maintains its long-held stance that funds shouldn't have to disclose their full portfolio holdings more than twice each year. Among its arguments: few of the more than 93 million individual U.S. fund investors have asked for more frequent and robust disclosure of where their more than \$5 trillion in assets are stashed. It's curious that the fund industry remains immune to the disclosure rage that has thus far focused on Wall Street, accountants and publicly traded companies. Right now, federal rules require funds to provide full portfolio disclosure in semiannual shareholder reports, though data are often months old when presented to fund holders. In a fast-moving market, this seems a bit thin.”

Similarly, the current Securities and Exchange Commission (SEC) rules on fund names mandate that a fund have at least 80% of their assets invested in whatever securities their names suggest (O'Brian, 2001). However, there appears to be significant leeway in the application of this rule. For example, fund names which include the terms “small cap,” “midcap,” and “large cap” must abide by the rule, *if* an individual fund defines what those capitalization categories are in their prospectus. Making matters worse, there are no restrictions on using “value” and “growth” in a fund's name. It is not surprising therefore that investors have little else to go on but the name when deciding which funds to invest in.

In summary, our finding that cosmetic name changes influence the flow of funds into a mutual fund adds support to a growing body of literature that documents that investors are “irrationally” influenced by cosmetic effects. Similar to the dotcom “mania” (Cooper, Dimitrov, and Rau (2001)), mutual fund managers may be timing their name changes to correspond with

hot periods of investment styles, suggesting they are taking advantage of investors who appear to disregard the underlying performance of the fund, investing in funds simply on aesthetic effects. This is broadly consistent with Capon, Fitzsimmons, and Prince (1996) who document that most investors have little knowledge about the products they are buying.

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Appendix

Examples of Mutual Fund Name Changes

Old Name	New Name	Name Change Categories
AIM Small Cap Equity Fund	AIM Small Cap GrowthFund	To Growth
Aquinas Equity Income Fund	Aquinas Value Fund	To Value
Armada Equity Fund	Armada Equity Growth Fund	To Growth
BB&T Fds Grp:Growth & Income Stock Fund	BB&T Fds Grp:Large Company Value Fund	To Large, To Value
Berger One Hundred Fund	Berger Growth Fund	To Growth
DLB Disciplined Growth Fund	DLB Enhanced Index Core Equity Fund	From Growth
Dreyfus Premier Global Investing	Dreyfus Premier International Growth	To Growth
Evergreen Strategic Growth Fund	Evergreen Large Company Growth Fund	To Large
Firstar Stellar Growth Equity Fund	Firstar Large Cap Growth Fund	To Large
Founders Funds: Special Fund	Founders Funds: Mid Cap Growth Fund	To Growth
Fremont Mutual Fds: Growth Fund	Fremont Mutual Fds: Structured Core Fund	From Growth
Gabelli Global Interactive Couch Potato Fund	Gabelli Global Growth Fund	To Growth
J Hancock Special Value Fund	J Hancock Small Cap Value Fund	To Small
Lord Abbett Growth and Income Fund	Lord Abbett All Value Fund	To Value
MFS Value Fund	MFS Capital Opportunities Fund	From Value
Northern Small Cap Fund	Northern Small Cap Value Fund	To Value
Nuveen Growth and Income Stock Fund	Nuveen Large Cap Value Fund	To Large, To Value
Nvest Equity Income Fund	Nvest Large Cap Value Fund	To Large, To Value
Oakmark International Emerging Value Fund	Oakmark International Small Cap Fund	From Value, To Small
Pimco Funds: Mid Cap Growth Fund	Pimco Funds: Mid Cap Fund	From Growth
Pioneer II	Pioneer Value Fund	To Value
Pioneer International Growth Fund	Pioneer International Value Fund	From Growth, To Value
Preferred International Fund	Preferred International Value Fund	To Value
Safeco Small Company Stock Fund	Safeco Small Company Value Fund	To Value
State Street Research: Alpha Fund	State Street Research: Mid Cap Value Fund	To Value

Table 1Mutual fund name change sample description

We use CRSP, Lipper, and Morningstar over the 1994 to 2001 period to identify name changes. We sort all funds in CRSP on their ICDI code, and keep track of name changes in the NAME field for the same ICDI code, providing us with 22,367 name changes. We screen on funds that have an apparent change in the fund's investment style as indicated in the fund's old/new name. Funds are defined as having a style name change if the new name is different from the old name by one of the following style identifiers: "Value/Val", "Growth/Gr/Grth", "Small/Sm" and "Large/Lg". If a new name includes any of these phrases and the old name does not, then the name change is classified as a "to" name change event. Similarly, if any of these phrases are dropped in the new name, then the name change is classified as a "from" name change event. After retaining only funds with style name changes in the CRSP data, we are left with 1,235 name changes. We then retain only funds with identifiable name change dates on Morningstar and Lipper, funds that belong to the primary share, and funds that are classified as equity funds. The final sample includes 296 unique name changes. Some name change events involve more than one style, resulting in 332 total style changes. Panel B reports data on the quarterly distribution of these name changes over our sample period.

Panel A: Total name changes in sample

	Number
Initial number of mutual funds name changes in sample period	22,367
Funds that have a "style" name change	1,235
Funds where data on the name change date is available	348
Equity funds	296
	Number
Total style changes	332
"To" Style name changes:	
To value	88
To growth	68
To small	44
To large	41
"From" style name changes	
From value	20
From growth	60
From small	8
From large	3

Panel B: Quarterly distribution of mutual fund name changes over the sample period

	To				From				Total unique changes
	Value	Growth	Small	Large	Value	Growth	Small	Large	
Q2 1994	1	1	0	0	0	0	0	0	2
Q3 1994	0	2	0	0	1	0	0	0	3
Q4 1994	0	2	2	0	1	0	0	0	5
Q1 1995	0	2	1	0	1	0	0	0	3
Q2 1995	0	0	0	0	0	0	0	0	0
Q3 1995	1	2	0	0	0	0	0	0	3
Q4 1995	1	0	0	0	1	0	0	0	2
Q1 1996	3	2	0	0	0	1	0	0	5
Q2 1996	0	2	1	0	0	1	0	0	3
Q3 1996	0	2	2	0	0	2	1	0	6
Q4 1996	0	0	1	1	0	2	0	0	4
Q1 1997	6	2	3	5	3	5	2	0	22
Q2 1997	5	2	2	1	0	2	0	0	12
Q3 1997	2	3	2	2	0	0	0	0	9
Q4 1997	0	2	2	1	0	2	0	0	6
Q1 1998	5	3	2	0	0	3	0	0	13
Q2 1998	3	1	3	3	2	0	1	0	10
Q3 1998	1	3	2	0	1	1	0	0	8
Q4 1998	0	1	1	0	0	0	0	0	2
Q1 1999	2	4	2	1	0	2	0	0	10
Q2 1999	5	2	6	2	4	1	0	1	20
Q3 1999	5	0	0	2	0	2	0	0	7
Q4 1999	2	2	1	0	0	1	0	1	7
Q1 2000	6	11	3	1	0	7	1	0	25
Q2 2000	5	7	1	2	3	4	1	1	19
Q3 2000	3	4	2	3	0	4	1	0	17
Q4 2000	10	2	2	4	0	6	0	0	22
Q1 2001	12	2	2	8	2	7	1	0	27
Q2 2001	8	2	0	5	0	4	0	0	18
Q3 2001	2	0	1	0	1	3	0	0	6

Table 2Characteristics of name change funds relative to the universe of mutual funds

Panel A reports the mean and median characteristics for the name change fund sample and for the universe of all other equity funds, matched on the date of the name change. Since funds are aligned on the name change months, the lagged values represent the fund characteristics just before the name change. Fund flow is defined, as in Sirri and Tufano (1998), as $[TNA_t - (1+r_t) TNA_{t-1}] / TNA_{t-1}$. The Fama-French three-factor alpha is calculated over 24 months prior to the date of the name change. If the fund does not have 24 months of data before the name change month, all available data is used as long as there is at least 6 months of data. The total load is the total of all maximum front, deferred, and redemption fees as a percentage total of loads applied to a fund. The expense ratio (over the calendar year) is the percentage of the total investment that shareholders pay for the mutual fund's operating expenses. The 12b-1 fee is a charge which is deducted from the underlying mutual fund's total assets to cover the cost of distribution and marketing. The value reported is the actual annual percentage of total assets attributed to this expense as of fiscal year end as reported in the prospectus. These variables are obtained respectively from the TOT_LOAD, EXPENSES and _12_B1 variables in the CRSP mutual fund database. Panel B reports the distribution of characteristics relative to the universe of all equity funds. Quintile 1 is the smallest and 5 the largest. The panel also reports p-values from a χ^2 one-sample test to test if the characteristics of the mutual funds are uniformly distributed with respect to the universe of funds. Panel C reports load and expense data for the mutual fund sample and the universe of equity mutual funds. The panel also reports p-values for a Mann-Whitney nonparametric test to test the equality of the distribution for the sample and the universe.

Panel A: Mean and median characteristics on the date of the name change

	Name Change funds		Other funds	
	Mean	Median	Mean	Median
Fund one month lagged return	1.15%	0.75%	0.73%	0.89%
Fund one month lagged total net assets (\$ millions)	299.42	89.53	598.84	68.42
Fund one month lagged flow	-0.47%	-0.52%	1.15%	0.12%
Total one month lagged load	2.24%	0.00%	2.43%	1.00%
One month lagged expenses	1.32%	1.27%	1.54%	1.45%
One month lagged 12b-1 fees	0.18%	0.06%	0.37%	0.25%
Fund Buy-hold returns over past 6 months	9.78%	8.54%	5.55%	5.53%
St dev. of fund returns over past twelve months	5.42%	4.81%	5.21%	4.60%
Mean fund flow over past 6 months	-0.003%	-0.27%	1.39%	0.31%
Fama-French 3-factor alpha calculated over past 24 months	-0.0006	-0.0007	-0.0013	-0.0011

Panel B: Distribution of fund characteristics on the date of the name change

	Q1	Q2	Q3	Q4	Q5	P-value
Fund one month lagged return	69	50	55	50	72	0.110
Fund one month lagged total net assets (\$ millions)	39	62	56	87	52	0.000
Fund one month lagged flow	75	78	54	49	40	0.001
Fund Buy-hold returns over past 6 months	46	55	45	68	82	0.002
St dev. of fund returns over past twelve months	35	60	75	68	58	0.003
Mean fund flow over past 6 months	84	65	66	54	27	0.000
Fama-French 3-factor alpha calculated over past 24 months	48	58	66	64	60	0.438

Panel C: Loads and expenses for the name change mutual funds

	0%	0%<fee≤1%	1%<fee≤2.5%	2.5%<fee≤5%	5%<fee	P-value
Sample funds						
Total one month lagged load	53.72	2.36	1.35	22.30	20.27	0.053
One month lagged expenses	0.34%	23.31	75.00%	1.35%	0.00%	0.000
One month lagged 12b-1 fees	48.65%	51.35%	NA	NA	NA	0.000
Universe of equity mutual funds						
Total one month lagged load	39.55%	11.74%	3.12%	30.89%	14.70%	
One month lagged expenses	0.09%	22.40%	71.15%	6.20%	0.15%	
One month lagged 12b1 fees	40.91%	59.08%	NA	NA	NA	

Table 3Determinants of mutual fund name changes

This table reports results for logistic regressions to investigate the characteristics of funds that change their names. Panel A investigates what types of funds choose to change their names. It reports the results of a cross-sectional logistic regression estimated as follows: For each fund in the entire CRSP fund universe, using data two years before the name change month, we estimate fund factor loadings on the Fama-French three-factor model. For each name change fund in our sample, we obtain at least 100 closest no-name change funds that have similar loadings on SMB and HML before the name change. We assign the name change fund a dummy of 1, and others 0. Panel B investigates, only for the sample of name change mutual funds, at what point in their life cycle do the funds choose to change their names. We report results for a time-series logistic regression broken down into “to” and “from” name changes. We use all the time series data available for each fund and regress the lagged explanatory variables on a dummy equal to one for the name change month and zero otherwise. P-values are in parentheses.

Panel A: Cross-sectional logistic regression

Constant	-4.86 (0.00)
Fund one month lagged total net assets (\$ millions)	0.00 (0.93)
Fund one month lagged return	0.00 (0.91)
Fund one month lagged flow	-0.01 (0.42)
Total one month lagged load (%)	0.08 (0.00)
One month lagged expense ratio (%)	-0.24 (0.09)
One month lagged 12b-1 fees (%)	-1.31 (0.00)
Fund Buy-hold returns over past 6 months	0.00 (0.26)
St dev. of fund returns over past twelve months	0.05 (0.02)
Mean fund flow over past 6 months	-0.05 (0.00)
Fama-French 3-factor alpha calculated over past 24 months	0.09 (0.19)

Panel B: Time-series logistic regression for name change funds

	To				From			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Constant	-4.44 (0.00)	-4.46 (0.00)	-4.24 (0.00)	-4.21 (0.00)	-4.32 (0.00)	-4.38 (0.00)	-4.42 (0.00)	-4.43 (0.00)
Fund one month lagged total net assets (\$ millions)			-0.26 (0.00)	-0.27 (0.00)			-0.14 (0.33)	-0.15 (0.30)
Fund Buy-hold returns over past 6 months		2.51 (0.00)		2.30 (0.00)		3.00 (0.00)		2.82 (0.00)
St dev. of fund returns over past twelve months			5.87 (0.01)	5.44 (0.01)			6.61 (0.09)	6.16 (0.11)
Mean fund flow over past 6 months	-4.74 (0.00)	-5.42 (0.00)	-4.60 (0.00)	-5.36 (0.00)	-11.27 (0.00)	-11.30 (0.00)	-10.27 (0.00)	-10.39 (0.00)
Fama-French 3-factor alpha calculated over past 24 months	6.64 (0.53)	-5.75 (0.59)	3.16 (0.72)	-6.23 (0.47)	31.49 (0.04)	15.34 (0.35)	25.59 (0.07)	11.10 (0.46)
Buy-hold return of the corresponding style over the past 6 months	1.70 (0.01)	-0.48 (0.59)	1.86 (0.00)	-0.20 (0.81)	-0.04 (0.97)	-2.43 (0.04)	0.19 (0.85)	-2.19 (0.06)

Table 4Cumulative excess flows earned by funds around the name change period

This table reports average cumulative excess flows to the name change funds in the year before to the year after the name change. Excess flows are calculated with respect to the closest mutual fund on the basis of its propensity score. Propensity scores are computed as follows: For each fund in the universe, using data two years before the name change month, we estimate fund factor loadings on the Fama-French three-factor model. For each name change fund in our sample, we obtain at least 100 closest no-name change funds that have similar loadings on SMB and HML. We assign the name change fund a dummy of 1, and others 0. To estimate a propensity score for each fund, we then use a logistic model on the following variables: the one-month lagged log of total net assets, six-month buy and hold return to the fund before the name change month, average fund flow and standard deviation of returns over the six months before the name change, the 12b-1 marketing fees before the name change, and the Fama-French three-factor alpha of the fund (calculated over the two years before the name change). For each name change fund, a matching no-name-change fund is identified as the fund with the closest propensity score to the name change fund. Panel A reports cumulative excess flows to all funds, “hot” style name change funds and “cold” style name change funds. Hot style name changes are defined as name changes towards (away from) a particular style when the corresponding style premium is up (down). Cold style name changes are defined as name changes away from (towards) a particular style when the corresponding style premium is up (down). Panel B reports cumulative excess flows to “cosmetic” and “non-cosmetic” name changes. Cosmetic name changes are defined according to a distance measure as follows: From the beta estimates of the Fama-French three-factor model in the pre- and post-name change periods, the sum of the squared differences on SMB and HML loadings are obtained for every fund. Quintile 1 of the distance measure is labeled the cosmetic quintile and the quintile 5 (with the highest total squared difference) is labeled the non-cosmetic quintile. Panel C reports cumulative excess flows for a two-way sort between cosmetic and non-cosmetic funds classified into hot and cold categories. T-statistics are reported in parentheses. We also report t-statistics for tests of the null hypothesis of equality of means across fund categories.

Panel A: Cumulative excess flows for all name changes, hot-style and cold-style name changes

	N	Months					
		-12 to 0	-6 to 0	-3 to 0	0 to 3	0 to 6	0 to 12
All name changes	296	-3.59% (-0.98)	-1.87% (-0.73)	-1.41% (-0.78)	12.07% (6.68)	16.31% (6.36)	22.36% (5.88)
Hot style name changes	219	-4.97% (-1.05)	-2.12% (-0.64)	-0.93% (-0.40)	17.92% (7.73)	22.46% (6.85)	28.27% (5.80)
Cold style name changes	113	-1.12% (-0.26)	-2.26% (-0.72)	-3.01% (-1.37)	1.27% (0.58)	3.87% (1.25)	7.66% (1.67)
T-test for differences (Hot-Cold)		-0.60	0.03	0.65	5.21	4.11	3.08

Panel B: Cumulative excess flows for cosmetic vs. non-cosmetic name changes

	N	Months					
		-12 to 0	-6 to 0	-3 to 0	0 to 3	0 to 6	0 to 12
Q1 Cosmetic	65	-1.99%	-0.53%	0.51%	26.63%	30.09%	37.16%
		(-0.17)	(-0.06)	(0.09)	(4.60)	(3.67)	(3.11)
Q5 Non-cosmetic	66	-0.37%	-2.42%	-2.70%	11.79%	21.50%	26.56%
		(-0.05)	(-0.49)	(-0.78)	(3.42)	(4.39)	(3.66)
T-test for differences (Q1-Q5)		-0.12	0.20	0.48	2.20	0.90	0.76

Panel C.1: Cumulative excess flows for “hot style” cosmetic vs. non-cosmetic name changes

	N	Months					
		-12 to 0	-6 to 0	-3 to 0	0 to 3	0 to 6	0 to 12
Q1 Cosmetic	46	1.31%	0.41%	2.10%	34.05%	39.61%	46.80%
		(0.08)	(0.04)	(0.27)	(4.32)	(3.56)	(2.89)
Q5 Non-cosmetic	44	5.94%	-1.27%	-1.43%	20.66%	31.47%	37.81%
		(0.60)	(-0.19)	(-0.30)	(4.36)	(4.70)	(3.84)
T-test for differences (Q1-Q5)		-0.24	0.13	0.38	1.46	0.63	0.47

Panel C.2: Cumulative excess flows for “cold style” cosmetic vs. non-cosmetic name changes

	N	Months					
		-12 to 0	-6 to 0	-3 to 0	0 to 3	0 to 6	0 to 12
Q1 Cosmetic	19	-9.73%	-2.80%	-3.34%	8.66%	7.04%	13.74%
		(-0.90)	(-0.37)	(-0.62)	(1.60)	(0.92)	(1.23)
Q5 Non-cosmetic	22	-12.29%	-4.74%	-5.23%	-5.96%	1.60%	4.01%
		(-1.48)	(-0.81)	(-1.26)	(-1.43)	(0.27)	(0.44)
T-test for differences (Q1-Q5)		0.19	0.20	0.28	2.14	0.56	0.68

Table 5Determinants of abnormal flows to name change funds

Post-name change cumulative abnormal flows in the three months after the name change are regressed on: a hot style dummy (defined as 1 if the name changes towards (away from) a particular style when the corresponding style premium is up (down) and 0 otherwise), a distance measure (defined as the sum of the squared differences on SMB and HML loadings in the pre- and post-name change periods), a “to” style dummy (defined as 1 if the move is to a particular style and zero otherwise), the Fama-French three-factor alpha calculated over months -24 to -1 before the name change, the excess return over the matching fund from months -3 to -1 before the name change, the cumulative abnormal flow over the matching fund from months -3 to -1, changes in 12b-1 fees, total load and expense ratios between the three months before to the three months after the name change, and the mean log(total net assets) over months -3 to -1. P-values are in parentheses.

	(1)	(2)	(3)	(4)	(5)	(6)
Constant	0.48 (0.00)	0.50 (0.00)	0.53 (0.00)	0.50 (0.00)	0.50 (0.00)	0.54 (0.00)
Hot style dummy	0.17 (0.04)	0.16 (0.05)	0.17 (0.04)	0.14 (0.07)	0.14 (0.08)	0.18 (0.04)
Distance measure		-0.04 (0.52)	-0.04 (0.49)	0.00 (0.99)	0.00 (0.96)	0.01 (0.86)
To style dummy						-0.07 (0.46)
Fama-French 3-factor alpha _{-24 to -1}			8.13 (0.11)	10.24 (0.04)	9.75 (0.05)	7.56 (0.13)
Excess buy-and-hold return over matching fund _{-3 to -1}						1.85 (0.00)
Cumulative abnormal flow _{-3 to -1}						0.18 (0.40)
Change in 12b-1 fees				5.19 (0.00)	4.82 (0.00)	4.78 (0.00)
Change in total load					0.25 (0.19)	0.24 (0.19)
Change in expense ratio					-0.36 (0.41)	-0.44 (0.31)
Mean log(total net assets) _{-3 to -1}	-0.10 (0.00)	-0.11 (0.00)	-0.11 (0.00)	-0.11 (0.00)	-0.11 (0.00)	-0.11 (0.00)
Adjusted R ²	7.10%	6.90%	7.40%	10.40%	10.40%	12.30%

Table 6Average change in fund characteristics around the name change

This table reports the average monthly change in characteristics to mutual funds that change their names in the year before to the year after the name change. Fund flow is defined, as in Sirri and Tufano (1998), as $[TNA_t - (1+r_t) TNA_{t-1}] / TNA_{t-1}$. The total load is the total of all maximum front, deferred, and redemption fees as a percentage total of loads applied to a fund. The expense ratio (over the calendar year) is the percentage of the total investment that shareholders pay for the mutual fund's operating expenses. The 12b-1 fee is a charge which is deducted from the underlying mutual fund's total assets to cover the cost of distribution and marketing. The value reported is the actual annual percentage of total assets attributed to this expense as of fiscal year end as reported in the prospectus. These variables are obtained respectively from the TOT_LOAD, EXPENSES and _12_B1 variables in the CRSP mutual fund database. The Fama-French three-factor alpha is calculated over 24 months prior to the date of the name change to 24 months after the name change date.

	All			Hot style			Cold style		
	Before	After	Paired t	Before	After	Paired t	Before	After	Paired t
Flow	-0.26%	1.86%	4.06	-0.41%	2.27%	4.32	-0.05%	0.69%	0.95
Fama-French 3-factor alpha	-0.05%	-0.17%	-1.42	-0.08%	-0.19%	-1.30	-0.02%	-0.09%	-0.51
Raw returns to the fund	1.36%	0.42%	-5.73	1.44%	0.32%	-5.87	1.29%	0.51%	-2.97
Excess returns over matching fund	0.06%	0.18%	0.98	0.00%	0.23%	1.60	0.11%	0.11%	0.01
Total net assets	286.08	311.97	0.41	294.01	311.05	0.24	260.28	301.06	0.41
Total load	2.23%	2.31%	0.41	2.20%	2.30%	0.43	2.40%	2.42%	0.05
Total expenses	1.35%	1.33%	-0.43	1.32%	1.30%	-0.46	1.39%	1.37%	-0.20
12b-1 fees	0.18%	0.18%	0.12	0.16%	0.17%	0.26	0.20%	0.20%	-0.04

Figure 1. Cumulative abnormal flow across name change funds

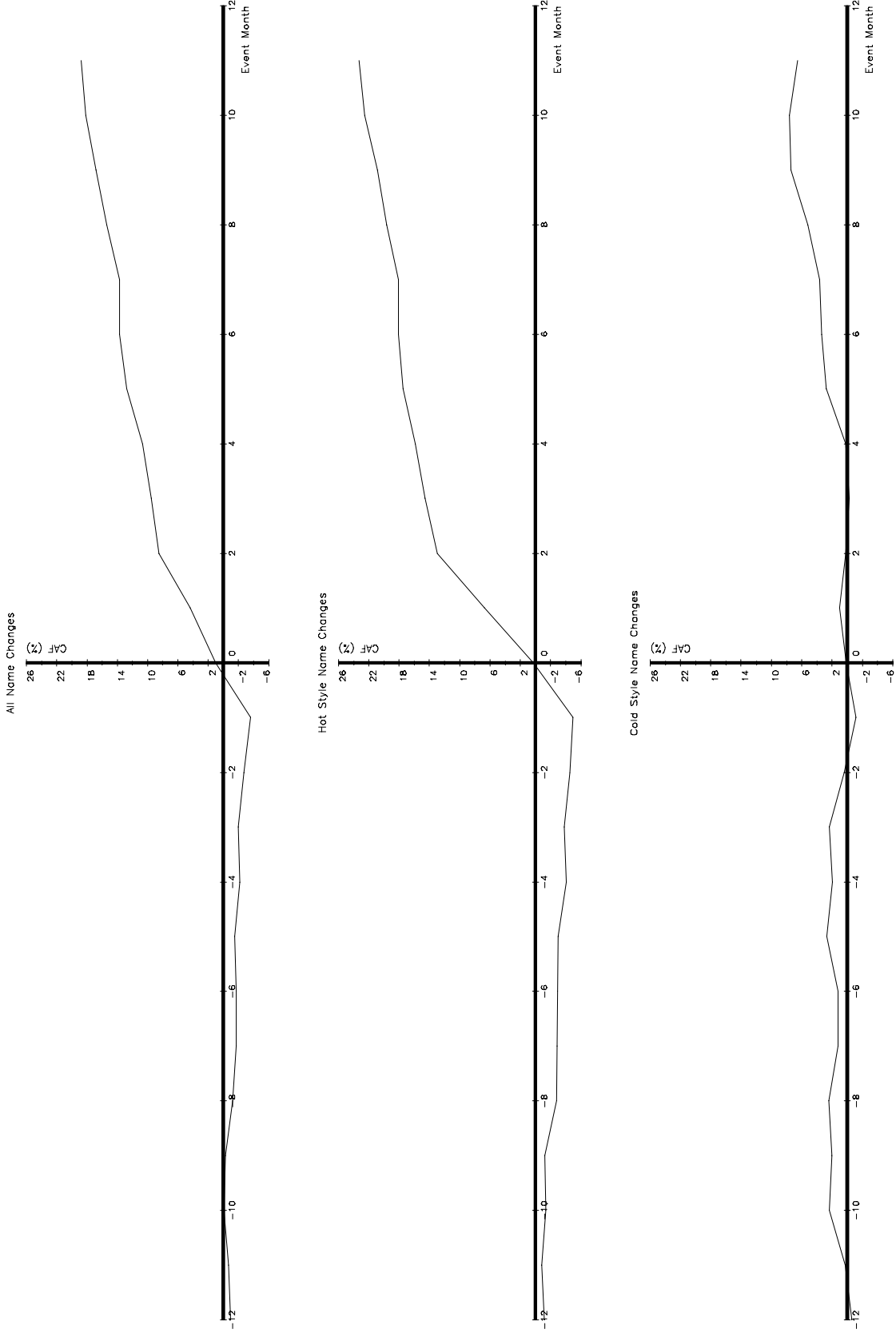


Figure 2. Cumulative abnormal flow for cosmetic and non-cosmetic name changes

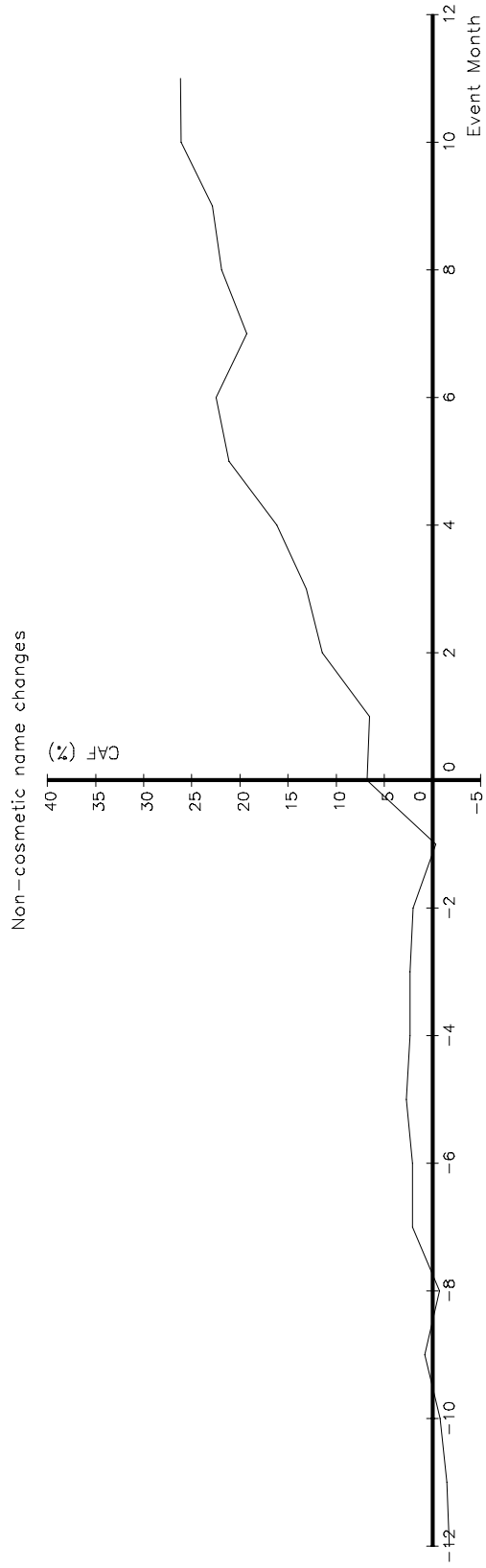
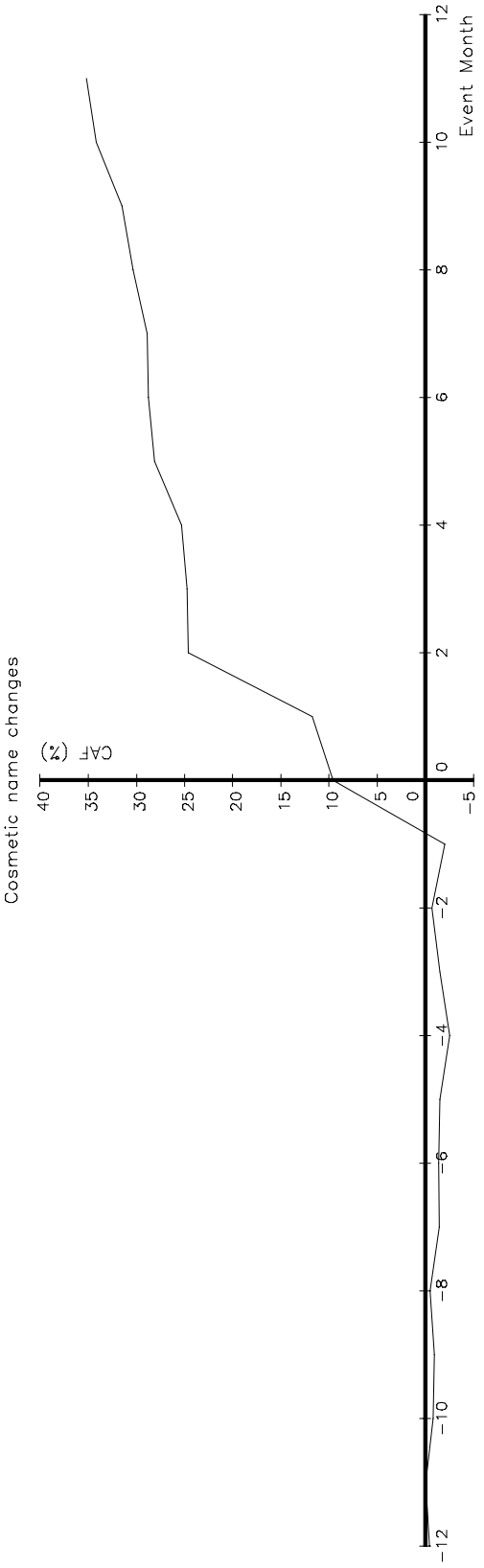


Figure 3. Cumulative abnormal flow for cosmetic/non-cosmetic and hot/cold style name changes

