February 26th, 2018
KAP 414
2:00 P.M. – 3:00 P.M.

Professor Jasko Cvitanic
(CalTech)

"Optimal Fund Menus"

Abstract: In our model, the heterogeneity of investors' beliefs creates a friction in delegated portfolio management.
This forces the optimal design of funds in a fund family to offer a menu that is incentive compatible: each investor type optimally invests in only one of the offered funds, aimed at his type. When the distribution of beliefs is uniform
across investors, satisfying incentive compatibility forces the funds to behave like "closet indexers" more than would be efficient. The offered portfolio strategies are closer to the efficient ones when the systematic risk premium is high and when the belief distribution is more concentrated on pessimistic investors. The fund family is better off when facing a
broader range of optimistic investors, in which case it offers funds that are more conservative than when facing
a base of investors that excludes the most optimistic ones.

This is a joint with Julien Huggonier.