

DOW JONES, A NEWS CORP COMPANY

DJIA ▲ 24434.43 0.84%

S&P 500 ▲ 2657.17 0.57%

Nasdaq ▼ 6837.46 -0.15%

U.S. 10 Yr ▼ -5/32 Yield 2.380%

Crude Oil ▼ 57.54 -1.41%

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.

<https://www.wsj.com/articles/give-to-get-what-motivates-some-hedge-funds-charity-1512356640>

JOURNAL REPORTS: FUNDS & ETFs

Give to Get: What Motivates Some Hedge Funds' Charity

New study finds that donations by hedge-fund managers tend to go up when the net flows and performance of their funds go down



In effect, charities invest in hedge funds 'which pay the best kickbacks,' says investment-firm chairman Don Cox. PHOTO: ISTOCKPHOTO/GETTY IMAGES

By *Simon Constable*

Dec. 3, 2017 10:04 p.m. ET

What motivates hedge-fund managers to make charitable donations?

A new study suggests that in many cases, the gifts appear to be more about business strategy than benevolence.

JOURNAL REPORT

- Insights from The Experts
- Read more at WSJ.com/FundsETFs

MORE IN INVESTING IN FUNDS & ETFs

- What to Know Before Fleeing to Cash
- No, Virginia: There's No Santa Claus Rally
- U.S.-Stock Funds Up 17% So Far in 2017
- Gender Bias in Fund-Manager Promotions
- College Finance Q&A

The researchers observed that hedge-fund managers often catch a severe case of philanthropy when their business hits the skids. That is, their giving tends to go up when the net flows and performance of the funds they manage go down, according to the study, which analyzed 6,642 donations of at least \$7,500 made to charities by 667 hedge-fund managers from January 1994 through June 2016.

“These guys seem to be giving money when their funds are doing badly, [which is] the opposite of you and me who give when we are doing well,” says Sugata Ray, professor of finance at the University of Alabama and co-author of the paper, along with Vikas Agarwal of

Georgia State University and Yan Lu of the University of Central Florida.

After making such gifts, hedge funds generally see a significant increase in net flows compared with their nondonating peers, the study said. That was especially true in the case of large, one-time donations (versus recurring donations) and when the gift went to a charity popular with other hedge-fund managers and investors.

In short, “these strategic donations work,” the researchers wrote in the paper.

Although the study didn't go into why charitable donations seem to trigger higher inflows into donor funds, the researchers theorize it could be that big gifts provide more opportunities for fund managers to network and market their funds.

“By making charitable donations and networking with investors, the fund managers may be able to gain their trust,” says Prof. Agarwal. Still, he says, “it isn't possible to provide concrete evidence on such a mechanism.”

It appears that for penny-wise charity administrators, who have hedge funds beating on their doors, “allocating to the funds which pay the best kickbacks is a cost-reduction formula,” says Don Coxe, chairman of Coxe Advisors in Chicago.

Not all hedge-fund managers have money to burn, yet those that follow this give-to-get strategy tend to bet big, according to Prof. Ray. “The average hedge-fund manager isn't worth hundreds of millions of dollars,” he says, but when they give to charity, it averages around 40% of the annual fund-management fees. “That is a significant proportion of annual total management fees.”

Mr. Constable is a writer in Edinburgh, Scotland. He can be reached at reports@wsj.com.

Appeared in the December 4, 2017, print edition as 'Give to Get: What Motivates Some Hedge Funds??? Charity.'

-
- **College Rankings**
 - **College Rankings Highlights**
 - **Conferences**
 - **Energy**
 - **Funds/ETFs**
 - **Health Care**
 - **Leadership**
 - **Retirement**
 - **Small Business**
 - **Tech Companies to Watch**
 - **Wealth Management**

Copyright ©2017 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.