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Rev. Financ. Stud. (2011) 24 (10): 3281-3320. doi: 10.1093/rfs/hhr058
First published online: August 30, 2011**Do Hedge Funds Manage Their Reported Returns?**

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Abstract

For funds with high incentives and more opportunities to inflate returns, we find that (i) returns during December are significantly higher than returns during the rest of the year, even after controlling for risk in both the time series and the cross-section; and (ii) this December spike is greater than for funds with lower incentives and fewer opportunities to inflate returns. These results suggest that hedge funds manage their returns upward in an opportunistic fashion in order to earn higher fees. Finally, we find strong evidence that funds inflate December returns by underreporting returns earlier in the year but only weak evidence that funds borrow from January returns in the following year.

JEL codes

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