1. RESEARCH BACKGROUND

- The funds management industry has grown rapidly over the past decades and play a vital role in making financial market more efficient and to provide value to its investors.
- There are a wide variety of institutional investor types, all with different characteristics which potentially can result in differing ability to predict future stock performance.
  - Hedge funds commonly apply redemption periods, thereby giving them an ability to enter illiquid positions.
  - The lucrative compensation structure of hedge funds can be expected to increase management effort and attract fund managers with the ability to earn abnormal returns.

2. RESEARCH MOTIVATIONS

- Given the different characteristics, it is important to understand how the stock picking ability may differ across different institutional investor types.
- Majority of previous research focus only on one type of institutional investor, and the use of different methodologies and sample periods, make it difficult to assess how the stock picking ability differs between each type.
- Analysis of holdings is an important compliment to fund returns when determining skills of institutional investors, and allows us to better understand the skills driving the stock picking ability of institutional investors.

3. WORK DONE

- Applying a decile portfolio methodology, we find that only hedge fund holdings contain information of future stock returns:
  - Decomposing stock returns and fund holdings, we find that hedge funds are able to forecast industry and stock returns both over a long-term and short-term horizon.
  - We also find evidence of market timing ability among hedge funds and mutual funds:
    - This is not due to hedge funds ability to enter more illiquid positions compared to other institutional investors:

4. FUTURE WORK

- Understand what type of hedge fund is more informed of future stock returns.
- Incorporate an estimate of hedge fund short positions (as we currently only have long positions).
- Improve understanding of how disclosed holdings can be used to form investment strategies, acknowledging the limitations of the lag in timing between holding date and when holding reports become publicly available.