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Assessing Mutual Fund Performance in China: A Sector Weight-based Approach

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Abstract: In many financial markets across the globe, full historical position disclosure is not required of mutual funds, or is subject to prolonged delays, often due to regulatory restrictions. This makes measuring fund manager performance based upon the stock-picking and market-timing skills of Kacperczyk et. al., (2014) impossible. This study introduces a new methodology utilizing sector weight analysis to estimate the stock-picking and market timing skills of 198 Chinese equity mutual funds fund managers. Within-sample predictions confirm that the new measures are robust and reliably identify fund managers who outperform their peers, suggesting this method may be useful in other institutional settings where the full historical position of funds is unavailable. Fund managers with lower stock picking or market timing skills are more likely to improve their skills in the following period, which suggests that manager skills develop and change over time. Finally, our analysis reveals that fund managers with higher stock picking skills are significantly less likely to be replaced, thereby enjoying greater job security.

Keywords: stock picking; market timing; Sharpe ratio; fund manager replacement