Abstract:
Although mutual fund performance has been dissected from almost every angle, very little attention has been paid to the connection between the actual active decisions made by management and the subsequent performance outcomes. In this paper we use information on institutional mutual funds to examine the implications of active positions and style tilts taken by management for the fund’s realised alpha, tracking error and information ratio. We identify some areas where the funds across the entire sample have success (active positions, and growth and winning stock tilts) and others where they fall short (value and loser stock tilts). We identify that there is significant variation in these findings when we extend our analysis to examine the impact of these active decisions on performance for different styles of funds during periods of weak and strong markets. Finally, we repeat the analysis by incorporating the initial choice of investment style with the active decisions in order to judge their dual impact on investment performance.

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