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Information Asymmetries in Global Institutional Investment

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Abstract: The paper contributes new evidence on the stock picking ability of institutional investors and how it varies across countries and continents. The previous research has compared mutual fund returns after controlling for risk factors. However, equity fund heterogeneity in terms of fund size, fund benchmark and fund capital dedicated to beating the benchmark (active share) make such performance comparisons across funds problematic. The current paper develops a new method of identifying asymmetric information based on changes in individual stock positions. A large global database on more than 6 million stock specific equity positions allows us to relate holding changes by a particular fund to subsequent excess returns in the respective stock. This new approach based on holding changes instead of fund returns should increase the statistical power of identification and has other econometric advantages.