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The Impact of More Frequent Portfolio Disclosure on Mutual Fund Performance

Sitikantha Parida^a, Terence Teo^b[Show more](#)

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Highlights

- The increase in disclosure frequency has adversely affected mutual fund performance.
- Performance of successful semi-annual funds has gone down by about 22.5 bps after 2004.
- Reduction in performance is higher for successful semi-annual illiquid funds.
- Funds with more frequent disclosure suffer more from front running activities.

Abstract

This paper analyzes the impact of more frequent portfolio disclosures on performance of mutual funds. Since 2004, SEC requires all U.S. mutual funds to disclose their portfolio holdings on a quarterly basis from semi-annual previously. This change in regulation provides a natural setting to study the impact of frequency of disclosure on performance of mutual funds. Prior to the policy change, we find that successful semi-annual funds outperform successful quarterly funds by 17-20 basis points a month. After 2004, their performance goes down and they no longer outperform successful quarterly funds. This reduction in performance is higher for semi-annual funds holding illiquid assets. These results support our hypothesis that the performance of funds with more frequent disclosure, particularly of those holding illiquid assets, suffer more from front running activities. We also find complementary evidence that the profitability of a hypothetical front running strategy based on public disclosures goes up with the frequency of portfolio disclosures.

JEL classification

G11; G23; G28

Keywords

Portfolio Disclosure Frequency; Mutual Fund Performance; Front Running; Free

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