

Who Is the Better Fund Manager: Attention Allocation and Investment Returns

Yan Su

*School of Business, East China University of Science and Technology, Shanghai, China
13773368988@139.com*

Abstract. Using data from China's equity funds (2019–2023), this paper explores how fund managers' attention allocation relates to investment performance. An attention allocation index, based on the frequency of changes in a fund's top ten stock holdings, captures decision-making focus. Ordinary Least Squares (OLS) regression shows a significant negative coefficient (-2.98, $p < 0.01$) for this index, indicating that concentrated attention—reflected in stable portfolios—enhances excess returns, aligning with cognitive resource scarcity theories by reducing information overload. Additional analyses reveal fund size positively correlates with performance (0.06, $p < 0.01$), suggesting economies of scale, while fund age has a negative association (-2.90, $p < 0.01$), implying greater agility in younger funds. These findings offer practical guidance: retail investors may benefit from stable-holding, moderately sized funds; regulators could foster long-term investment to reduce excessive portfolio churning. This study enriches literature by quantifying attention in an emerging market, aiding global investors in navigating China's financial landscape. Limitations include reliance on public data, with future research needing multi-source data integration.

Keywords: Emerging Markets, Fund Managers, Attention Allocation, Investment Returns

1. Introduction

Over the past four decades, China has achieved an average annual economic growth rate of nearly 10%, creating a globally recognized “growth miracle.” As of 2024, China's gross domestic product (GDP) has surpassed 134 trillion RMB, while per capita disposable income has risen from 343 RMB in 1978 to 41,314 RMB. Ordinary residents have accumulated substantial wealth during this period. Accompanying the country's economic expansion is a growing demand among residents for wealth management, which has in turn spurred the rapid development of China's capital markets. According to data from the Asset Management Association of China, by December 2024, the size of China's public mutual fund market reached 32.83 trillion RMB—an increase of nearly 14 times compared to 2010. The total number of fund products has reached 12,367, with over 800 million investor accounts, making it the second-largest mutual fund market in the world today.

The prosperity of China's public mutual fund market has, on the one hand, provided ordinary investors with a broader range of investment options. On the other hand, the overwhelming number and variety of mutual fund products have also created decision-making challenges. This is

particularly true for inexperienced retail investors, who often lack the professional knowledge required to assess fund managers' investment capabilities and the ability to distinguish valuable information from the vast amount of noise present in the market.

Although retail investors can screen funds based on indicators such as fund size, net asset value, rankings, and historical returns, existing research has shown that at least 80% of a fund's returns are determined by its asset allocation. Meanwhile, individual attention is a scarce resource, and fund managers cannot monitor all stocks in the market simultaneously. When fund assets are concentrated and consistently allocated within a specific scope, fund performance tends to be better [1]. Building on this, data from China's public mutual fund market and Ordinary Least Squares (OLS) regression are applied to examine the relationship between fund managers' attention allocation and investment returns over the five-year period from 2019 to 2023 for equity funds in China. A substantial body of literature [2] has demonstrated that individual attention is inherently limited, and tasks or areas that receive more attention are more likely to succeed. Accordingly, an attention allocation index are constructed based on fund managers' attention to the stocks within their portfolios. By analyzing the relationship between this index and investment returns, the hypothesis is tested that fund managers who allocate more focused attention are more likely to achieve superior portfolio performance. The empirical findings confirm that fund managers who exhibit higher attention to their own portfolios tend to have a deeper understanding of the stocks they hold and are thus able to deliver better investment returns. Conversely, those who frequently adjust their portfolios tend to achieve lower returns.

This study makes several key contributions. First, unlike the mutual fund markets in traditional developed economies such as the United States and Europe, China's mutual fund market is relatively young, with a less mature investor base but heightened global investor interest. Therefore, examining the investment behavior of Chinese fund managers offers valuable insights for global investors seeking to understand this emerging investment landscape. Second, by focusing on the degree of attention fund managers allocate to their own portfolios, the study contributes to the existing literature on fund manager behavior. It provides a more scientific basis for investors to make informed decisions in securities investment.

2. Literature review

Psychological research has shown that human information-processing capacity is constrained by the scarcity of attention [3]. When individuals engage in multitasking, their cognitive resources become dispersed, leading to reduced task efficiency. In investment contexts, this manifests as the "distraction effect": when investors frequently shift their focus or diversify their asset allocations too broadly, they may experience information overload, thereby weakening their ability to identify and process key information [4]. Traditional studies have primarily focused on investors' attention allocation at specific moments—such as their reactions to announcements or news—while largely neglecting the adverse effects of frequent shifts in attention. When investors constantly switch between industries or investment targets, the volume of information received may exceed their cognitive processing capacity, thereby impairing decision-making performance due to "information overload." For example, when fund managers excessively chase market trends or hot sectors, they may become distracted and overlook changes in the fundamentals of their portfolio holdings [5].

When a fund's asset allocation is concentrated in a specific sector—that is, when the fund exhibits a high degree of attention allocation—managers can focus their cognitive resources on processing information relevant to that sector, thereby reducing the interference of noise from unrelated domains. For instance, fund managers specializing in the consumer sector are more

efficient at interpreting company announcements and industry chain developments within that sector [6]. A high level of attention allocation (i.e., greater fund focus) also enhances the ability to detect subtle signals. For example, a fund concentrated in technology stocks may be able to identify early signs of a company's technological breakthrough, while a more diversified fund may overlook such signals due to dispersed attention [7].

A high level of attention allocation implies that a fund consistently holds specific assets, thereby motivating the manager to engage in long-term tracking—such as reviewing financial statements and purchasing research reports—which facilitates the accumulation of insider information or industry insights. Continued focus on a specific sector also enhances the investor's domain expertise, forming a positive feedback loop of “attention – information acquisition – capability enhancement” [8]. For example, fund managers who have long focused on the new energy sector are significantly faster and more accurate in interpreting policy changes than their non-specialized counterparts. Highly focused funds tend to maintain long-term positions in core assets, thereby reducing the frequency of portfolio rebalancing caused by shifting market trends. Berkshire Hathaway, led by Warren Buffett, is a prime example—its holdings are highly concentrated, with an average annual turnover rate of less than 10%, substantially lowering transaction costs such as commissions and stamp duties [9]. In contrast, funds that frequently adjust their portfolios not only face higher transaction costs, but also risk missing out on long-term gains due to trend-chasing and momentum-based trading behavior.

3. Empirical analysis and regression results

To examine the relationship between fund managers' attention allocation and investment returns, this paper used the data on China's mutual funds from 2019 to 2023. To avoid distortion from passive investment strategies, this paper excluded index funds from our sample and retain only actively managed equity funds. The final sample comprises 1,320 funds. Data on fund managers' portfolio compositions and return rates are sourced from the GTA (Guotaian) Database and the Wind Database.

To evaluate fund managers' attention allocation, this paper first constructed an attention allocation index (denoted as Concentration). Following the methodology of prior research [1], this paper aggregated each fund's top ten stock holdings on a quarterly basis and measure attention allocation by counting the number of distinct companies that appear in the top ten holdings over the course of a year. A greater number of distinct companies in these quarterly top-ten lists indicates more frequent changes in core holdings and a broader scope of attention—implying a lower level of attention allocation. Next, this paper used the Fama-French three-factor model to estimate each fund manager's excess return. Furthermore, numerous studies have shown that fund size and fund age significantly influence performance. Therefore, this paper included fund size and the number of years since establishment as control variables in our regression model.

This study is based on a sample of 1,320 funds, with the descriptive statistics of key variables as follows: The mean fund excess return (Y) is 12.81%, with a standard deviation of 22.10%, indicating overall profitability but substantial variation across individual funds. The worst observed return is -41.28%, while the best reaches 100.2%, reflecting a wide performance disparity. The fund attention allocation index (Concentration) has a mean of 21.53 and a standard deviation of 6.56, with a relatively concentrated distribution. The proportion of holdings in core industries ranges between 10% and 40%. Fund size (Asset) averages 1.471 billion RMB, with a standard deviation of 2.933 billion RMB, illustrating significant scale heterogeneity—ranging from mini funds with assets as low as 1 million RMB to leading products exceeding 34.71 billion RMB. The average fund age

(Age) is 5.54 years with a standard deviation of 2.47 years, with most funds in the 3–8 year lifespan range; the shortest-lived fund is 1 year old, and the longest has existed for 19 years, covering both new and mature funds. Overall, the sample demonstrates strong representativeness. The variations in returns, fund size, and attention allocation form the core characteristics of the dataset, providing a solid empirical foundation for analyzing the relationship between fund manager attention allocation and investment performance.

Table 1. Summary statistics of the sample

Variable	N	Mean	Std	Min	Max
Y	1320	12.81	22.10	-41.28	100.2
Concentration	1320	21.53	6.56	10	40
Asset	1320	14.71	29.33	0.01	347.10
Age	1320	5.54	2.47	1	19

We construct the regression model as follows:

$$Y_{i,t} = \alpha_i + \beta_1 \text{Concentration}_{i,t} + \beta_2 \text{Asset}_{i,t} + \beta_3 \text{Age}_{i,t} + \varepsilon_{i,t} \quad (1)$$

Where $Y_{i,t}$ represents the excess return of fund i at time t ; $\text{Concentration}_{i,t}$ denotes the attention allocation of fund i at time t . A statistically significant negative coefficient β_1 indicates that funds with higher attention allocation achieve higher investment returns, and vice versa. $\text{Asset}_{i,t}$ represents the fund's asset size, and $\text{Age}_{i,t}$ denotes the fund's age since inception.

Table 2. Regression results

Concentration	-2.98*** (-3.30)
Asset	0.06*** (3.13)
Age	-2.90*** (-12.47)
Cons	34.38*** (13.88)
Obs.	1320
Adj-R2	0.11

Note: ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. Values in parentheses are t-statistics.

Those regression results are presented in Table 2. The coefficient for Concentration is -2.98 and is statistically significant at the 1% level, indicating that higher fund manager attention allocation is associated with higher investment returns. The coefficient for Asset is 0.06, also significant at the 1% level, suggesting that larger funds tend to achieve better performance. The coefficient for Age is -2.90, which is negatively significant at the 1% level, indicating that younger funds tend to deliver superior returns.

4. Conclusion

Using data from China's public mutual fund market between 2019 and 2023, we constructed an attention allocation index to investigate the relationship between fund managers' attention and investment returns. The findings indicate that funds with higher levels of managerial attention tend to achieve better performance. These results provide individual investors with deeper insights into fund manager behavior, assisting them in making more informed fund selections and ultimately improving their investment returns.

Although the issue of fund managers' attention allocation has been explored, this study primarily relies on publicly available market data, and data limitations prevent it from accounting for all factors influencing fund investment returns. For example, the dataset does not include fund managers' private research resources, such as non-public industry communications and institution-specific research channels, which may lead to bias in assessing information advantages. Additionally, due to insufficient unstructured data, semi-structured data from investor discussions on social media platforms (e.g., Xueqiu, Weibo) and content from fund managers' personal media accounts were not incorporated. Such data potentially contain critical market sentiment information that could enrich the analysis.

To address the aforementioned limitations, future research could innovate along two main avenues. First, by integrating multi-source data—including internal research logs from fund companies, investor behavior tracking data (such as app clickstream data), and publicly available information harvested via web scraping techniques—a multidimensional database can be constructed. Second, further experimental research designs could be implemented, such as simulated investment scenario experiments that manipulate variables like fund manager exposure frequency and modes of information dissemination. These experiments would enable observation of changes in attention allocation and their impact on investment decisions, thereby facilitating causal inference.

References

- [1] Song, X. B., Lu, D., & Cheng, J. (2022). The power of focus: Fund concentration and fund performance. *Financial Research*, (6), 24–35.
- [2] Schmidt, D. D. (2019). Distracted institutional investors. *Journal of Financial and Quantitative Analysis*, 54, 2453–2491.
- [3] Kahneman, D. (1973). *Attention and effort*. Englewood Cliffs, NJ: Prentice-Hall.
- [4] Simons, D. J., & Levin, D. T. (1997). Change blindness. *Trends in Cognitive Sciences*, 1(7), 261–267.
- [5] Che, J. S., Sun, H. L., Xiao, C. J., & Li, A. M. (2019). Why does information overload impair decision-making? An explanation based on limited cognitive resources. *Advances in Psychological Science*, (10), 1758–1768. (In Chinese)
- [6] Pennington, R. R., & Kelton, A. S. (2016). How much is enough? An investigation of nonprofessional investors' information search and stopping rule use. *International Journal of Accounting Information Systems*, 21, 47–62.
- [7] Shepherd, D. A., McMullen, J. S., & Ocasio, W. (2017). Is that an opportunity? An attention model of top managers' opportunity beliefs for strategic action. *Strategic Management Journal*, 38(3), 626–644.
- [8] Van Nieuwerburgh, S., & Veldkamp, L. (2009). Information immobility and the home bias puzzle. *Journal of Finance*, 64(3), 1187–1215.
- [9] Busse, J., Green, T., & Baks, K. (2007). Fund managers who take big bets: Skilled or overconfident? [Working paper].