Summary of Unobserved Performance of Hedge Funds

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1 What are the research questions?

- Whether a hedge fund firms' UP can predict future performance better?

2 Why are the research questions interesting?

- identification of skilled hedge fund manager and predict their future performance has remained elusive
  - hedge funds' lax regulation, opaque structure, and limited disclosure
- introduce a skill measure for hedge funds
  - hedge fund firms' unobserved performance (UP)
  - strongly predicts its future performance

3 What is the paper's contribution?

- propose a new performance metric for hedge funds
  - outperforms predictions by returns-based and holdings-based performance measures
- uncover different sources of managerial skill in hedge funds
  - distinct from those inferred from the return gap measure
- provide evidence on relation between manager skill, performance predictability
  - investors' limited attention lead to delayed response and longer lived predictability

4 What hypotheses are tested in the paper?

- Hypotheses
  - hedge fund firm's UP can predict future performance better
  - the nature of hedge funds' trading strategies can enhance UP
- Proof
  - UP is clearly superior in predicting future risk-adjusted returns
  - quity positions, derivatives usage, short selling, and confidential holdings.

5 Sample

- 698 fund firms managing 2,409 funds from 1994.01 to 2017.02

6 Dependent and independent variables

- UP: Gross Fund Firm Performance-Equity PE Performance

7 Regression/prediction model specification

- Fama and MacBeth regressions in ChapterC

8 What difficulties arise in drawing inferences from the empirical work?

- How to distinguish whether investors consider Unobserved Performance (UP) when making investments, or whether they observe the high performance that follows high UP

9 Describe at least one publishable and feasible extension of this research.

- Construct UP using Chinese data.