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**An examination of the relationship between mutual funds' holdings
and listed firms in China**

A thesis presented in fulfilment of the requirements for the degree of

PhD

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Finance

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New Zealand

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Dedication:

This thesis is dedicated to my wife, Wang Chen, and my son, Yang Feiran. Your love, sacrifice and understanding is boundless.

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Abstract

This thesis comprises three essays that focus on the relationship between mutual funds and listed firms in China. In contrast to existing studies, which regard mutual funds as being homogeneous, Essay One classifies mutual funds into three categories based on their past investment behaviours: dedicated, quasi-index and transient mutual funds. Different mutual fund types are then used throughout the whole thesis. Moreover, Essay One also finds that different mutual funds have different criteria of selecting portfolio firms and adopt different trading strategies.

In the following two essays, dedicated and quasi-index mutual funds are grouped together as long-term mutual funds, as both of them have longer holding periods than transient mutual funds. Transient mutual funds are treated as short-term mutual funds¹. Essay Two examines the impact of mutual funds on earnings management. The empirical evidence indicates that long-term mutual funds can constrain non-core income management. However, they are incapable of influencing accruals management. Transient mutual funds, which pursue short-term earnings, can encourage listed firms to manage earnings in a subtle way: decreasing non-core income, but increasing discretionary accruals.

Essay Three investigates the relationship between mutual funds and dividend

¹ This thesis uses the terms “transient mutual funds”, “short-term mutual funds”, synonymously.

payouts. Essay Three finds that all mutual funds types prefer to invest in listed firms that pay cash or stock dividends. Listed firms tend to pay more cash dividends after the long-term mutual funds' ownership increases. Due to the concern of the deterioration of financial ratios and the liquidity of stocks, long-term mutual funds do not encourage their portfolio firms to pay more stock dividends. On the other hand, listed firms increase both cash and stock dividend payout rates after transient mutual funds' ownership increases.

Overall, the empirical evidence indicates that different mutual fund types show different preferences for firm attributes and exert different impact on their portfolio firms. The heterogeneity among Chinese mutual funds investigated in this thesis has not previously been rigorously investigated and this makes the findings of this thesis important and unique for the benefit of both academic research and practical application.