

The Equity Choice of Institutional Investors in China's Market

Author: Kun Cong
University of Twente
P.O. Box 217, 7500 AE Enschede
The Netherlands

ABSTRACT

This thesis conducts empirical research about the impact on shareholdings of the institutional investors in China (specifically the social security fund) with its holding companies' accounting information and market performance information. The research has found that, both accounting information and market performance information of the company are strongly correlated to the institutional investors shareholding.

**Graduation Committee members:
Dr. Xiaohong Huang, Dr. Samy Essa**

Keywords

Institutional investors, pension fund, accounting information, market performance information, China

Permission to make digital or hard copies of all or part of this work for personal or classroom use is granted without fee provided that copies are not made or distributed for profit or commercial advantage and that copies bear this notice and the full citation on the first page. To copy otherwise, or republish, to post on servers or to redistribute to lists, requires prior specific permission and/or a fee.

9th IBA Bachelor Thesis Conference, July 5th, 2017, Enschede, The Netherlands.

Copyright 2017, University of Twente, The Faculty of Behavioural, Management and Social sciences.

1. INTRODUCTION

In the countries like the United States and the United Kingdom with a developed capital market, pension funds, as one of the major institutional investors, play an active role in the development of financial markets. Especially since the 1980s, the rise and active development of shareholder activism have made the pension fund a hot issue in finance and economics research and has achieved fruitful research results. In China, the pension fund (formerly known as Social Security Fund) began to invest in the stock market in 2003, the theoretical and practical research on investment preference of pension fund is still in its infancy.

Institutional investors together with individual investors, constitute the investment entities of the capital market. The institutional investors hold their economies of scale advantage, the convenience and efficiency of the information collection and processing are increasingly prominent. Considering the background of the transitional economy in China, along with the continuous development of capital markets, institutional investors as a major participant in the market also achieved a greater development. Their growth is mainly reflected in the expansion of the investment subject (including closed funds, open funds, insurance funds, social security funds, and so forth), the increasing the support from securities regulators, and the establishment and improvement of relevant laws and regulations (At the executive meeting of the China State Council on 3 February 2016, the National Social Security Fund Regulations (Draft) was approved. This means that there truly is a law to follow for 1.5 trillion Chinese yuan of social security fund management).

Securities investment funds, pension funds and other institutional investors have a normal principal-agent relationship (Frentrop, 2012), on the one hand, it must pursue the interest maximisation of shareholders or all fund holders, on the contrary by the related regulatory laws and constraints, investment behaviours are intended to be strongly binding. Because of regulations in the securities market, institutional investors show two market characteristics, which are the prudent man rule motivation and transaction cost motivation, respectively.

In this paper, I would like to analyse the investment activities of the pension funds from several perspectives, which includes accounting information and market performance information of the holding companies.

The *research question* is, what firm's characteristics explain the institutional investor's shareholdings?

2. LITERATURE REVIEW AND HYPOTHESIS

2.1 Literature Review

Due to the long-term development of institutional investors in the western capital market, there is much empirical research on institutional investors. Many studies are about the proportion of institutional investors' shareholding and the information characteristics of their holding companies.

2.1.1 Prudent Man Rule Motivation

As we mentioned in the introduction part, institutional investors would act out of two motivations. Firstly, as for institutional investors' prudent motivation, since institutional investors play the role of trustees, they first consider the safety of their assets when making investment decisions.

Prudent man rule refers to the degree of prudence that the investment manager should achieve in the investment management of pension funds. This necessary level of prudence

relates to the prudence that a normally prudent person should have in dealing with property. The fiduciary is required to invest trust assets as a "prudent man" would invest his property with the following factors in mind: the needs of beneficiaries, the need to preserve the estate (or corpus of the trust), and the amount and regularity of income. (FDIC Trust Manual) In other words, prudent man rule requires any investment behaviour of an investment manager to be considered as a cautious businessman treats his property facing to a variety of risk factors, to build a portfolio that is conducive to the risk diversification and risk-averse for the pension fund.

The prudent man rule emphasises the duty of loyalty and the transparency of investment managers. Such law requires the pension fund manager has the duty of loyalty to the pension fund holder, which is one of the most basic obligations that the pension fund manager should perform. The so-called "duty of loyalty" is to require pension fund managers to make sound decisions in making investment decisions and to reasonably believe that their actions are in the best interests of pension fund holders (instead of their individuals). At the same time, the prudent man rule requires transparency in the management of pension funds to prevent and combat fraud to effectively protect the legitimate interests of pension fund holders. (Galer, 2002)

Taking into account the impact of the above motivation on the pension fund investors, the investor's decision is to consider the various aspects of the company's indicators, including accounting information and market performance information, specifically company size, financial leverage, profitability, constituent stocks, beta value and so on.

The pension fund, like other institutional investors, which are legally required by the prudent man rule from common law, are responsible for their clients. Therefore, they are very concerned about the prudence and safety of stocks they invested. Investment managers invest considering the protection of their interests in the decision-making process. Especially in the time of poor investment performance, if the investment manager can prove its investment is prudent, then their investment will be considered as a safe choice by the clients and other stakeholders, instead of being charged as a wrong decision.

Institutional investors tend to choose the rating of external professional rating agencies as a reference for their investment prudence. Badrinath, Gay and Kale (1989) selected Standard & Poor's external rating as a measurement. The empirical results support the hypothesis that they propose that "institutional investors' shareholding proportion is an increasing function of the stock's prudence". The results from Gompers and Metrick (2001) also validate such hypothesis. Gompers and Metrick analysed characteristics of the institutional investors' holdings and their impact on share prices and stock returns. The study found that institutional investors were more likely to hold shares in large firms, and share prices for big companies were on the uptrend, while small companies' stock premium showed a downward trend.

Del Guercio (1996) examines the impact of prudent principles on investment behaviour using 1968 to 1989 statistics on the main institutional investors in the United States. He discussed the characteristics of banks and mutual fund holding companies from the perspective of stock quality (based on the S&P 500 index and the ranking in S&P), and found that those two institutional investors are different in terms of investment prudence, leading the characteristics of holding companies are also distinct (e.g. firm size, listing age to market, stock liquidity, earnings quality and market risk). The study found that the empirical results of the sample from all institutional investors also supported the findings of Badrinath, Gay and Kale (1989).

Eakins et al. (1998) found that institutional investors tend to hold companies with large scale, high liquidity, paying dividends, and higher rankings, and avoid companies with extreme characteristics, research results support institutions investors' prudent man rule.

In 1973, Employee Retirement Income Security Act (ERISA) has passed, which assesses the overall prudence of the portfolio, and does not require that every part of the investment is considered to be prudent. In addition, ERISA requires that in addition to the right to participate in the fund, also make clear specifications on the investment reports of pension fund managers and related information disclosure. Besides that, capital usage in the investment plans and trustee responsibility are also expressly provided therein. As a result, some scholars have studied the impact of ERISA on different institutional investors, especially on pension funds, from various perspectives.

Cummins, Percival, Westerfield and Ramage (1980) investigated the impact on private pension plans after the adoption of ERISA. The author surveyed 87 investment managers and 723 private pension plan managers. The study found that after of the passage of ERISA, the Pension plan managers pay more attention to investment performance evaluation, and will buy trustee liability insurance. Moreover, the portfolio risk of pension funds will be reduced. Cummins and Westerfield (1981) analysed the impact of ERISA on the diversification of private pension fund portfolio. The results show that the concentration degree of the pension plan portfolio has been reduced after ERISA, and the pension fund manager has adopted a more diversified approach to investment. In contrast, the concentration of bank trust and mutual fund investment has not declined.

The court may refer to the company's past performance when determining whether an investment in institutional investors is prudent. If a company held by pension fund has good performance in the past, the court tends to pronounce that the investment follows the principle of prudence, whereas investment losses are quickly considered to be caused by the inadvertent investment of institutional investors. Therefore, to protect their interests, and to prevent being judged for the investment is imprudent when facing the litigation, the portfolio manager will choose the companies with impressive performance previously and the outstanding management level for the investment object.

Badrinath, Gay and Kale (1989) selected 2250 enterprises of the New York Stock Exchange and the American Stock Exchange as of December 31, 1985, as the survey object, analysed the investment behaviour of the portfolio manager in the implementation of the fiduciary duties using the client's' funds. They used the excess return rate of the past 60 months as a substitute variable for performance and found that there was a significant positive correlation between that indicator and the proportion of institutional investors' shareholding, indicating that companies with better performance in the past also have higher shareholding proportion from institutional investors.

Hendry, Woodward, Cook and Gaved (1999) visited 68 UK fund managers, brokerage analysts, business executives and human resources executives on human resource management issues. One of the questions is about which performance data the company and investors value the most?" The four groups of respondents agree that the most important are: financial performance, corporate strategy, governance quality and human resources management.

Chan, Chen and Lakonishok (2002) are concerned about the investment style of the US mutual fund, which also finds mutual funds tend to buy stocks with better performance in the past. They have analysed the profit over the previous three years and

the profit over the past year, all of which have come to such conclusion.

Beta is a major factor influencing stock investment of institutional investors such as pension funds. According to modern portfolio theory, the higher the beta coefficient, the higher the expected yield of the stock. We can speculate that there is a positive correlation between the shareholding ratio and the beta coefficient. Badrinath, Gay and Kale (1989) found that the proportion of institutional investors holdings were positively correlated with the beta coefficient, indicating that institutional investors preferred to invest in companies with high beta coefficients.

Financial leverage has a positive correlation with total risk and market risk, respectively. The proportion of institutional investors' shareholding is negatively correlated with the overall risk of the stock. However, the relationship with the market risk is uncertain and may be positively correlated or negatively correlated. Therefore, its relationship with the financial leverage is also unclear. Badrinath, Kale and Ryan (1996) showed that there is a significant negative correlation between the proportion of non-insured institutional investors' holdings and financial leverage.

There are two different views and conclusions on the influence of the *company size* on the proportion of pension fund shareholdings: Gompers and Metrick (2001) found that the large institutional investors increased demand for large firms' stocks between 1980 and 1996, reducing the need for small companies' stocks. Fama and French (1993), Bennett, Sias and Starks (2003) also argued that institutional investors tend to invest in large companies' stocks.

However, the conclusions of Jensen, Johnson and Mercer (1997) is contrary to the above findings. They found that institutional investors significantly favoured holding small-company stocks to achieve higher returns during the time of US Federal Reserve's expansionary monetary policy. It shows that institutional investors' shareholding changed in the situation by the national macroeconomic policy, social development and other factors.

2.1.2 Transaction Cost Motivation

As the number of institutional investors' shareholding is large, so the investment behaviour of the institutional investors will often cause a greater volatility in stock prices. According to a SEC report in 1988, \$20 million spot transactions will have a 0.27% impact on prices, while a \$120 million deal is about to cost \$520,000 due to price changes. Coupled with the commission costs, the transaction costs of institutional investors are relatively high. As a result, institutional investors pay more attention to transaction costs and liquidity than individual investors.

Therefore, being motivated by transaction cost, the pension fund investors will be paying attention to other company indicators, the share price and turnover rate would be the example.

Institutional investors' shareholding ratio are often relatively large, so it usually invests in the stock with high market value. The amount of investment in institutional investors is far greater than the amount of investment in individual investors. It will bring a lot of pressure and impact to the company's stock price in share trading. If the company's stock does not have enough liquidity, it will inevitably lead to high transaction costs for institutional investors. As a result, institutional investors tend to invest in stocks with high liquidity and less impact on transaction costs.

Badrinath, Gay and Kale (1989) found that the liquidity of the stock had a positive correlation with the shareholding proportion of institutional investors. In 1996, they used the same measure of

the turnover ratio as before in 1989 to study the relationship between institutional investors' shareholding and stock liquidity. The data for 1986 and 1988 were consistent with their findings in 1989.

Falkenstein (1996) analysed the cross-sectional data of more than 2000 mutual fund in 1991 and 1992. He discovered stock liquidity, volatility, price, listing age and firm size has a significant impact on fund managers' holdings, which is, most fund managers prefer stocks with high liquidity, lower risk and low transaction costs, and there is no particular preference for the company's risk. Gompers and Metrick (2001) used firm size, price per share and stock turnover as a surrogate variable for liquidity. The empirical results showed that between 1980 and 1996, institutional investors preferred large-scale, highly liquidity stocks. Del Guercio (1996) argued that stocks traded on the New York Stock Exchange be highly liquidated, by empirical research found that institutional investors prefer to invest in stocks traded on the New York Stock Exchange to verified that liquidity is a major factor for institutional investors to consider.

2.2 Hypothesis

Institutional investors are usually made up of professionals with a high level of competence, resources, and motivation to collect and process information (Korczak and Tavakkol, 2004). Given the need for empirical research, we will be using the institutional investors' degree of concern about the following two types of information to measure its fundamental analysis to companies.

The first is the *accounting information* provided by the listed company. The accounting information from the financial statements of listed companies is a sum reflection of company's financial situation, operating results and cash flow, which is one of the company's information the investors commonly used in the investment decision-making.

Because of the large number of accounting information, this paper examines several indicators directly related to investment decision according to the previous research conclusions and the China's institutional background, including:

First, as the larger companies are more concerned by all parties (Statman, 1995), and the availability of information is higher than smaller firms (Gebhardt, Lee and Swaminathan, 2001), therefore institutional investors in the investment decision-making should be considering the company's size.

Second, generally speaking, the higher the company's debt level, the greater the financial risk, the possibility of bankruptcy also increased, which means high financial leverage is positively related to the high financial dilemma (Ohlson, 1980). Therefore, it is likely that institutional investors avoid holding companies with high indebtedness in investment decisions.

Third, according to the investment policy and investment objectives disclosed by institutional investors, they tend to invest in larger businesses that have higher profitability and potential of development. As a result, the company's profitability must be the focus of institutional investors, including the number of earnings (represented by earnings per share), the quality of earnings (represented as operating cash flow per share), the key indicators of profitability (Return on equity).

In summary, we propose hypothesis 1:

H1: The accounting information of listed companies (total assets, financial leverage, operating cash flow, earnings per share and return on equity) in China has a strong ability to explain the institutional investors' shareholding.

Second, the market performance of the listed companies' stock is not only affected by its development but also profoundly impacted by the market condition. Statman (1995) found that the

firm's stock returns were related to its *market information*. Therefore, institutional investors as a rational investor will also take into account the company's performance on the market in the investment decision-making, the previous research literature also supports such view.

First, Del Guercio (1996) deemed that stocks belong to the S&P 500, most of them are considered as the large capital enterprise in the industry, the quality of these stocks are usually relatively high. In China, the index of security market reflects the price changes of listed stocks, so as to provide investors with portfolio analysis reference frame.

Second, the high P/B ratio of listed companies reflects that the current performance is good, and indicates the higher future return on net assets (Y. Lu, 2000).

Third, out of consideration of avoiding market risk, institutional investors are bound to hold the company's stock of low-risk level. However, they also have the desire to achieve higher returns, which to some extent make them willing to invest in companies with higher systemic risk (Eakins et al., 1998).

Fourth, the larger company's stock liquidity, the lower the cost of the transaction (Eakins et al., 1998), the stock liquidity can be measured as the stock turnover ratio (Badrinath, Kale and Ryan, 1996).

Fifth, the stock price represents the degree of recognition of investors to the quality of on-list companies, the higher price indicates that the listed companies are accepted and recognised by the investors in a higher degree. Moreover, high transaction costs are also relatively small (Falkenstein, 1996), they more likely to be held by institutional investors.

To this end, we predict the proportion of institutional investors shareholding is positively related to whether the company is a constituent stock, the P/B ratio, the liquidity of the stock, the stock price, and the relationship to beta is not clear.

In summary, we propose hypothesis 2:

H2: The market performance information of listed companies (CSI 300 index, beta value, market capitalization, share price, turnover and PB ratio) in China has a strong ability to explain the institutional investors' shareholding.

3. RESEARCH DESIGN

3.1 Regression Model

Through the following model, the relationship between the institutional investors shareholding and accounting information and market performance information are analysed respectively. Among them, the independent variable is the institutional shareholdings, and the dependent variables are the various types of characteristic variables of an individual stock.

$$\begin{aligned} INVEST_t = & \alpha_0 + \alpha_1 SIZE_{t-1} + \alpha_2 LEV_{t-1} + \alpha_3 OCF_{t-1} \\ & + \alpha_4 EPS_{t-1} + \alpha_5 ROE_{t-1} + \alpha_6 INDEX \\ & + \alpha_7 BETA_{t-1} + \alpha_8 SIZE_2_{t-1} \\ & + \alpha_9 PRICE_{t-1} + \alpha_{10} TURNOVER_{t-1} \\ & + \alpha_{11} PB_{t-1} + \varepsilon_1 \end{aligned}$$

3.2 Data Sources

The primary data for this study come from one source. Both security characteristics and institutional ownership originate from the database of China Stock Market & Accounting Research (CSMAR). I took two years of listed companies held by the social security fund from 2015 to 2016 as the object of study. In the process of the particular sample selection, I removed the following companies: the listed businesses that went IPO in the same year of our time range, financial and insurance companies, companies that the data are not complete. After

above treatment, our sample contains 1377 listed companies, of which the sample size in 2015 is 648, and the sample size in 2016 is 729.

3.3 Variables

3.3.1 Accounting Information Variables

SIZE_1: the natural logarithm of company's total assets.

LEV (in %): debt assets ratio, calculated by total liabilities/total assets.

OCF (Chinese Yuan/share): operation cash flow per share, calculated by net cash flow from operating activities/number of ordinary shares at the end of the year.

EPS (Chinese Yuan/share): earnings per share, calculated by net profit/total share capital.

ROE (Chinese Yuan/share): return on equity, calculated by net income/shareholders' equity.

3.3.2 Market Performance Information Variables

INDEX: a dummy variable equal to one if the firm is included in the CSI 300, zero otherwise.

BETA: beta value, measured for the 24 months before the dataset.

SIZE_2: the natural logarithm of company's yearly market capitalization.

PRICE (Chinese Yuan): the average price of the company's share in a year.

TURNOVER (in %): yearly turnover ratio, calculated by volume/shares outstanding.

PB: the price-to-book ratio, calculated by company's market capitalization/company's total book value.

3.3.3 Shareholding Variables

IO: institutional ownership, calculated by the number of shares held by social security fund/total number of outstanding stocks of the company.

INVEST: we used the weight of stock i in the fund portfolio at time t to measure the fund's investment preferences for stocks

$$INVEST_{i,t} = Value_{i,t} / Investment_t$$

Where $Value_{i,t}$ is the amount of all funds invested in the stock i at time t , and $Investment_t$ is the total amount of all fund investment at time t . $INVEST_{i,t}$ reflects the importance of the stock in the fund portfolio. If the fund prefers the stock, that stock has a higher weight in the fund's portfolio and increases as the preference increases.

4. EMPIRICAL FINDINGS

4.1 Descriptive Statistics

According to the results of Table I, we can find that the standard deviation of return on equity is a significantly higher than EPS, the mean and the median value of ROE are also higher than EPS, while, the mean and the median value of earnings per share is quite low, on average it is only 0.33 Chinese yuan. It shows that from the perspective of the return on equity and earnings per share, the company's performance held by social security fund investors is performing on the average level. And then, as for the proportion of shareholding, the proportion basically remains unchanged over time in the two years, the proportion in 2016 is 0.13% less than 2015, but when we look at the total proportion of shareholding, it is still at a low level (two-year average of 1.79%), which determines the right to speak of the social security fund investors in the decision-making process of listed companies. Finally, talking about the weight of different stocks in the fund portfolio, we see the median value remains at really low level, of which 0.09% in 2015 and 0.08% in 2016, indicating that the investing style of social security fund is diversified, the investors tried to keep their portfolio balanced instead of investing a big amount of money in some particular stocks.

Table I Descriptive Statistics

Variable	Mean	Median	Std. Deviation	Minimum	Maximum	N
SIZE_1	22.35	22.15	1.25	18.67	27.32	1377
LEV (in %)	0.43	0.42	0.2	0.03	1.1	1377
OCF (in Chinese yuan/share)	0.34	0.25	1.15	-16.34	14.73	1377
EPS (in Chinese yuan/share)	0.33	0.25	0.33	-0.6	1.86	1377
ROE (in Chinese yuan/share)	6.57	6.19	5.9	-17.86	28.26	1377
BETA	0.97	0.94	0.5	-0.51	3.65	1377
SIZE_2	22.95	22.88	0.87	21	26.45	1377
PRICE (in Chinese yuan)	22.95	18.03	18.32	3.1	218.19	1377
TURNOVER (in%)	128.89	112.54	78.21	2.77	327.63	1377
PB	5.34	3.86	12.13	0.76	310.19	1377
IO 2015 (in%)	1.86%	1.43%	1.57%	0.12%	18.78%	648
IO 2016 (in%)	1.73%	1.31%	1.45%	0.04%	15.21%	729
INVEST 2015 (in%)	0.15%	0.09%	0.23%	0.005%	3.06%	648
INVEST 2016 (in%)	0.14%	0.08%	0.17%	0.007%	1.53%	729

4.2 Test Results and Analysis

4.2.1 The Correlation Analysis between the Institutional Investors Shareholdings and Accounting Information of Companies

Table III is the regression results between institutional investors shareholdings and company's accounting information. Firstly, from the whole, the company accounting information and institutional investors shareholdings are strongly correlated. Hence the hypothesis 1 is valid.

The result is reflected by the significance of each variable, and also by the value of the adjusted R-square (0.167 in 2015 and

0.192 in 2016). From the regression results of each variable, SIZE, LEV, EPS and ROE, those four variables are significant, except for OCF. As for OCF, it has low significance in both two years, and one-year correlation result is not in line with the expectations (showing as negative), indicating that the variable cannot explain the investor's shareholdings. I think the possible reason is that social security fund investors was more focusing on the company's profitability and did not pay much attention on the cash flow in the past two years, because the value of operating cash flow is little, we can see that the mean value of OCF showing only 0.34 and the median value of 0.25 from the descriptive statistics.

Table II Pearson correlation matrix

	INVEST	SIZE	LEV	OCF	EPS
SIZE	0.389** (0.00)				
LEV	-0.110** (0.003)	0.564** (0.00)			
OCF	0.148** (0.00)	0.108** (0.004)	-0.053 (0.151)		
EPS	0.259** (0.00)	0.188** (0.00)	-0.072 (0.062)	0.519** (0.00)	
ROE	0.212** (0.00)	0.083* (0.030)	-0.038 (0.328)	0.177** (0.00)	0.505** (0.00)

**, Correlation is significant at the 0.01 level (2-tailed)

*, Correlation is significant at the 0.05 level (2-tailed)

Table III Regression results between institutional shareholding and accounting information

Variable	Year 2015 coefficient	Year 2015 t-value	Year 2016 coefficient	Year 2016 t-value
Constant	***	-6.738	***	-8.865
SIZE_1	0.335***	7.136	0.407***	9.336
LEV	-0.088**	-1.884	-0.111***	-2.584
OCF	-0.002	-0.057	0.024	0.595
EPS	0.09***	1.898	0.109***	2.299
ROE	0.177***	3.763	0.116***	2.874
F value	20.58		33.087	
Adjusted R	0.167		0.192	

Significances are marked so that * denotes 10%, ** 5% level, and *** 1% level

4.2.2 The Correlation Analysis between the Institutional Investors Shareholdings and Marketing Performance Information of Companies

Table V is the regression results between institutional investors shareholdings and the company's market performance information. Similarly, I found that the company's market performance information has the high ability to explain the institutional investor's shareholdings (adjusted R-square is 0.254 in 2015 and 0.263 in 2016), hence the hypothesis 2 is valid.

Moreover, there is an increasing relationship of institutional investors shareholdings and the company's market performance information in the two years. From the regression results of each variable, the institutional investors shareholding is positively

correlated with constituent stocks, market capitalization and share price, which are consistent with the expected results. However, the institutional investors shareholding is negatively correlated with the turnover rate of shares, which may be due to the fact that institutional investors pay more attention to stock returns compared to considering its transaction costs. Besides, the social security fund shareholdings and the beta value was also negatively correlated, indicating that investors tend to hold stocks of low-risk level. The reason of which is out of the consideration to avoid the market risk, investors chose not to invest in the companies of high beta value. For the end, there is no significant correlation between the PB ratio and the institutional investors' shareholdings, which may be due to the uncertain impact of that variable on firm performance. Y. Lu

(2000) mentioned that there is evidence that investment in the stock of large PB ratio gains lower returns instead.

Table IV Pearson correlation matrix

	INVEST	INDEX	BETA	SIZE_2	PRICE	TURNOVER
INDEX	0.381** (0.00)					
BETA	-0.174** (0.00)	-0.142** (0.00)				
SIZE_2	0.487** (0.00)	0.646** (0.00)	-0.083* (0.041)			
PRICE	0.024 (0.514)	-0.054 (0.143)	0.059 (0.149)	0.048 (0.199)		
TURNOVER	-0.224** (0.00)	-0.242** (0.00)	0.182** (0.00)	-0.38** (0.00)	-0.011 (0.774)	
PB	-0.027 (0.459)	-0.058 (0.118)	0.147** (0.00)	-0.02 (0.595)	0.178** (0.00)	-0.044 (0.233)

**. Correlation is significant at the 0.01 level (2-tailed)

*. Correlation is significant at the 0.05 level (2-tailed)

Table V Regression results between institutional shareholding and market performance information

Variable	Year 2015 coefficient	Year 2015 t-value	Year 2016 coefficient	Year 2016 t-value
Constant	***	-6.356	***	-5.083
INDEX	0.138***	2.589	0.196***	3.96
BETA	-0.045**	-1.151	-0.098***	-2.624
SIZE_2	0.384***	6.691	0.301***	5.753
PRICE	0.07**	1.696	0.075***	2.041
TURNOVER	-0.031**	-0.762	-0.066**	-1.613
PB	0.041	1.064	-0.367	-0.367
F value		28.714		35.145
Adjusted R		0.254		0.263

Significances are marked so that * denotes 10%, ** 5% level, and *** 1% level

5. CONCLUSION

With the continuous development of China's capital market, institutional investors continue to grow; the regulatory authorities continually establish and improve the regulations. So, in this context of such background, what are the China's social security fund investors' concerns on the company's various types of information? This thesis analyses the correlation between the institutional investor's shareholdings and the listed companies' two kinds of information. The study has found that:

First of all, China's institutional investors attach great importance to the company's accounting information when they are making decisions, and showing an increasing trend year by year. The concrete results are that the positive correlation with the company size, earnings per share and return on equity. The institutional investors shareholding has a negative correlation with the debt ratio. Secondly, China's institutional investors in the decision-making process will also consider companies' market performance information, and it is also showing an increasing trend year by year. Specifically, the institutional

investors shareholding has a positive correlation with constituent stocks, market capitalization and the stock price, and it has a negative correlation with the beta value and the stock liquidity. Overall, it illustrates that institutional investors shareholdings and all aspects of the company's information have a particular relevance.

Throughout the above research results, we can find that at this stage our institutional investors attach great importance to the role of information in investment decision-making, pay attention to the company's fundamental analysis. The investment behaviour of institutional investors is related to the company quality which is expressed by the business information, such as the attention to the size of the enterprise, the quantity of profit, the quality of profit, the level of risk and the return status.

6. LIMITATIONS

This thesis systematically analyses the concerns of Chinese social security fund investors in respect of all perspectives of the company's information, and analyses the time difference between the institutional investors' holdings through the period, and provides empirical evidence that Chinese institutional investors

using company information on the investment decision-making. However, there are still some shortcomings in the research of this thesis. For example, this thesis does not carry on the segmented research according to the difference of the overall performance in the securities market, also is not comprehensive enough in the selection of variables, which is subject to the further research.

7. REFERENCES

- 1) Badrinath, S., Gay, G., & Kale, J. (1989). Patterns of Institutional Investment, Prudence, and the Managerial "Safety-Net" Hypothesis. *The Journal Of Risk And Insurance*, 56(4), 605.
- 2) Badrinath, S., Kale, J., & Ryan, H. (1996). Characteristics of Common Stock Holdings of Insurance Companies. *The Journal Of Risk And Insurance*, 63(1), 49.
- 3) Bennett, J., Sias, R., & Starks, L. (2003). Greener Pastures and the Impact of Dynamic Institutional Preferences. *Review Of Financial Studies*, 16(4), 1203-1238.
- 4) Chan, L., Chen, H., & Lakonishok, J. (2002). On Mutual Fund Investment Styles. *Review Of Financial Studies*, 15(5), 1407-1437.
- 5) Cummins, J., & Westerfield, R. (1981). Patterns of Concentration in Private Pension Plan Common Stock Portfolios since ERISA. *The Journal Of Risk And Insurance*, 48(2), 201.
- 6) Cummins, J., Percival, J., Westerfield, R., & Ramage, J. (1980). Effects of ERISA on the Investment Policies of Private Pension Plans: Survey Evidence. *The Journal Of Risk And Insurance*, 47(3), 447.
- 7) Del Guercio, D. (1996). The distorting effect of the prudent-man laws on institutional equity investments. *Journal Of Financial Economics*, 40(1), 31-62.
- 8) Eakins, S., Stansell, S., & Wertheim, P. (1998). Institutional portfolio composition: An examination of the prudent investment hypothesis. *The Quarterly Review Of Economics And Finance*, 38(1), 93-109.
- 9) Falkenstein, E. (1996). Preferences for Stock Characteristics as Revealed by Mutual Fund Portfolio Holdings. *The Journal Of Finance*, 51(1), 111.
- 10) Fama, E., & French, K. (1993). Common risk factors in the returns on stocks and bonds. *Journal Of Financial Economics*, 33(1), 3-56.
- 11) Frentrop, P. (2012). Short-Termism of Institutional Investors and the Double Agency Problem. *SSRN Electronic Journal*.
- 12) Gebhardt, W., Lee, C., & Swaminathan, B. (2001). Toward an Implied Cost of Capital. *Journal Of Accounting Research*, 39(1), 135-176.
- 13) Gompers, P., & Metrick, A. (2001). Institutional Investors and Equity Prices. *The Quarterly Journal Of Economics*, 116(1), 229-259.
- 14) Hendry, C., Woodward, S., Harvey-Cook, J., & Gaved, M. (1999). Investors' Views of People Management. *Corporate Governance*, 7(4), 324-337.
- 15) Jensen, G., Johnson, R., & Mercer, J. (1997). New Evidence on Size and Price-to-Book Effects in Stock Returns. *Financial Analysts Journal*, 53(6), 34-42.
- 16) KEIM, D., & MADHAVAN, A. (1997). Transactions costs and investment style: an inter-exchange analysis of institutional equity trades. *Journal Of Financial Economics*, 46(3), 265-292.
- 17) Korczak, P., & Tavakkol, A. (2004). Institutional investors and the information content of earnings announcements: the case of Poland. *Economic Systems*, 28(2), 193-208.
- 18) Lu, Y. (2000). *The Empirical Research on Feltham-Ohlson Valuation Model and PB, PE*. Shanghai: Shanghai Joint Publishing Company.
- 19) Ohlson, J. (1980). Financial Ratios and the Probabilistic Prediction of Bankruptcy. *Journal Of Accounting Research*, 18(1), 109.
- 20) Statman, M. (1995). Behavioral Finance versus Standard Finance. *AIMR Conference Proceedings*, 1995(7), 14-22.