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**MUTUAL FUND PERFORMANCE:
A CASE STUDY OF MALAYSIA EQUITY-BASED FUND
(2001 – 2005)**

TABLE OF CONTENT

CONTENTS	PAGE
ACKNOWLEDGEMENT	iv
LIST OF TABLES	v
LIST OF FIGURES	vi
LIST OF CHARTS	vii
LIST OF ABBREVIATIONS	viii
DEFINITION OF TERMS	ix
ABSTRACT	xi
CHAPTER 1: INTRODUCTION	
1.1 Background of Studies	3
1.2 Problem Statement	5
1.3 Objective of Study	7
1.4 Research Questions	8
1.5 Hypothesis	9
1.6 Scope of Study	11
1.7 Limitation of Study	12
1.8 Significant of Study	13
1.9 Detailed of Population	14
CHAPTER 2: LITERATURE REVIEW	19

ABSTRACT

This study aims to evaluate the performance of Malaysia equity-based mutual funds over a five years period (1/1/2001 – 31/12/2005). Specifically, the study focuses on sixteen equity-based funds with relates to the relationship between fund performance with current return, management expense ratio and manager experience. The Pearson Correlation Coefficient and Simple Linear Regression Analysis are used to evaluate the performance of the equity-based mutual fund. The conclusion of this study is that none of the sixteen funds shows a positive statistical significant coefficient between current return and fund performance. Besides, only one fund showed a significant relationship between management expense ratio and fund performance. Apart from this, five funds showed a positive significant relationship between manager experience and fund performance. Hence, a longer manager experience does add value to a fund but does not ensure a persistence higher return. Thus, in overall this means that an increase in these variables; current return, management expense ratio and manager experience would not have any strong effect on fund performance.

CHAPTER 1 INTRODUCTION

1.0 INTRODUCTION

The development of the Mutual Fund Industry locally known as Unit Trust Industry in Malaysia can be traced back as early as 1959 that was established by a company called Malayan Unit Trust Ltd. Although the introduction of Mutual Fund concept was relatively earlier compared to its Asian neighbors, it was only in the 1990's saw the fastest growth in terms of new management company's and funds under management.

During the first two decades of its introduction from 1959 - 1979, there were only five Mutual Trust management companies with 18 funds being introduced. In the early days, there was lack of public interest in this new investment product. However in line with the call from the Federal Government in the 1970's to mobilize domestic household savings, saw the emergence of state government sponsored mutual trusts. The 1980's saw a significant development in the industry with the introduction of Skim Amanah Saham Nasional (ASN) with the aim of encouraging the Bumiputra to participate in the investment activities. By October 1982, it managed to attract one million Bumiputra investors, investing an estimated RM600 million which saw an overwhelming public response. The era of the 1990's saw a tremendous growth in the industry with the total Net asset value of funds (NAV) totaling RM11.7 billion at the end of 1990 to RM60 billion at the end of 1996, that saw more than five-fold growth in value. Despite the setback due to the Asian financial crisis, the local unit trust industry managed

CHAPTER 2 LITERATURE REVIEW

2.0 LITERATURE REVIEW

It was estimated that mutual funds have been growing at an average annual rate of 14.4 percent since 1989, higher compared to the growth in equities and bank deposits (Asiaweek, 2001). Studied done on the Asian Market Entry published by Rainmaker Information reported that the Asian pension market was US\$3 trillion strong. Furthermore emerging Asian economies like China, Indonesia, the Philippines, India and Malaysia are expected to grow by double digits annually and projected to reach US\$12 trillion by the year 2030 (Bala and Matthew, 2003). However in recent years extensive collection of literature on emerging markets have been carried out, these mainly focus on the US funds investing in the emerging markets (for example Kaminsky et al., 2001; Pomerleano, 1998; Hwang and Satchell, 1998) there is very limited work that has been done on mutual funds that exist in these emerging markets.

Many academic studies for the last three decades emphasized on measuring the persistence of Mutual Funds performance. As pointed out by Kazemi, Thomas and Pancholi (2003), money managers have to rely on their past performance to demonstrate their ability in generating excess returns (i.e., positive alphas). Besides both the investors and people who evaluate these money managers (e.g., Morningstar) also have rely on past performance data as well.

The bottom line for most investors is performance, as shown by earlier studies that give much attention on past performance of mutual fund. This is due to the fact that