The Impact of Mutual Fund’s Management Strategy on Performance

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ABSTRACT

The relationship between fund management strategies and fund performance has been an important issue for academics and practitioners. Using Taiwan equity mutual fund data from 2001 to 2008, we investigate the relationship between the management strategy of mutual funds and their performance under controlling the effect of different fund characteristics. There are two measures to detect the degree of active management of a fund. The first is \( R^2 \) obtained by regressing fund’s return on the Fama-French-Carhart four benchmark portfolios. Lower \( R^2 \) represents higher degree of active management. The second is the standard deviation of the difference between a fund return and its benchmark portfolio return. Larger standard deviation of tracking error measures the higher degree of active management. The empirical results show that a significantly positive relationship between the degree of active management and performance in the corresponding period of time. However, the degree of active management cannot predict the following year’s fund performance. Moreover, the degree of active management is not related to performance persistence.

Keywords: Mutual Funds, Fund Performance, Fund Management Strategy.