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Evidence From the UK

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Mutual Fund Performance: Evidence from the UK

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Abstract. This paper uses a large sample containing the complete return histories of 2300 UK opened mutual funds over a 23-year period to measure fund performance. We find some evidence of underperformance on a risk-adjusted basis by the average fund manager, persistence of performance and the existence of a substantial survivor bias. Similar findings have been reported for US equity mutual funds. New findings not previously documented for other markets include evidence that mutual fund performance varies substantially across different asset categories, especially foreign asset categories. We also identify some new patterns in performance related to the funds' distance from their inception and termination dates: underperformance intensifies as the fund termination date approaches, while, in contrast, there is some evidence that funds (weakly) outperform during their first year of existence.

1. Introduction

Mutual fund performance in European markets is a largely unexploited research area. In contrast, a large literature analyzes the performance of US mutual funds invested in US equities.¹ However, to date few studies have investigated whether the US findings carry over to other markets or to other asset categories.² This is important because the European mutual fund industries have different histories and because the US results might be sample-specific and driven by institutional arrangements peculiar to the US fund management industry. Within Europe, the UK has the largest and most well-developed mutual fund industry with the longest track record. In this paper, we explore a new and extensive data base on the per-

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¹ For a partial review of the US findings, see Brown and Goetzmann (1995), Carhart (1997), Elton, Gruber, Das and Hlavka (1993), Ferson and Schadt (1996), Grinblatt and Titman (1989), Grinblatt and Titman (1992), Gruber (1996), Hendricks, Patel and Zeckhauser (1993), Lehmann and Modest (1987), and Malkiel (1995).

² Among the few studies of the mutual fund industry outside the US are Ward and Saunders (1976), Black, Fraser and Power (1992), Bal and Leger (1996), and Leger (1997), all of which investigate UK mutual fund performance.