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ABSTRACT

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Abstract

The aim of the study is to examine bond portfolio performance and the bond market efficiency. Can portfolio managers achieve abnormal positive returns in the bond market? Furthermore, the purpose is to set a foundation for investors to understand bond market realities and to select strategies for accomplishing investment objectives.

The purpose of the theoretical part of the study is to provide investors with information on bonds and bond markets and to explain core bond portfolio management strategies.

The empirical part of this study is conducted using a sample from the Finnish bond mutual fund market during 1998-2003. Most of the previous studies concerning the bond portfolio performance have used samples from more mature markets in US and in Europe. Using a sample from an emerging market like Finland is interesting since the market has started to develop and grow rapidly and the growth potential in Finland is substantial. Furthermore, there is no comprehensive evidence whether the findings from previous studies that have been conducted by using data from more mature markets can be expanded to emerging markets. The data consists of 39 bond mutual funds. The data is obtained from Mutual Fund Reports published monthly by Helsinki Stock Exchange. Mutual Fund Reports contains end-of-month data on mutual funds that are traded in Finland.

The performance of the funds is examined using both aggregate return and risk-adjusted return. The risk-adjusted measure used in this study is Sharpe's index. In addition to this, tracking error and administration fee is used to examine the portfolio managers' ability to reward investors for active management and the effect of the activity of the fund.

In general, the findings support the existence of efficient markets. Overall and for subcategories of bond portfolios, the results show that bond portfolios have underperformed relevant indexes. The results for a longer time period are robust with both non-risk-adjusted and risk-adjusted performance measures. The results indicate some but statistically insignificant persistence in performance of the funds. Furthermore, the results indicate that active portfolio management strategies do not reward investors. On the contrary, passive strategies have outperformed active strategies. Moreover, a strong negative relation between fees and portfolio net returns is found for all subcategories. Principally the results are in line with foreign studies. It can be concluded that the Finnish bond markets function as a part of the international bond market that has been examined and documented to be rather efficient.

Key words	bond, portfolio management, portfolio performance, mutual fund, market efficiency
Further information	