# PERFORMANCE OF MUTUAL FUNDS IN GHANA: A CASE STUDY OF ANIDASO MUTUAL FUND (NEW GENERATION INVESTMENT SERVICES)



**By**

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I hereby declare that this submission is my own work towards the CEMBA and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgment has been made in the text.



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## ABSTRACT

In this dissertation, a comprehensive assessment of existing mutual fund performance models is presented. The search for most suitable model to measure mutual fund performance is addressed using three different methods to characterize or measure performance: the arithmetic average of the monthly returns for each fund over the sample period; the standard deviation of the monthly return for each fund over the sample period and the Sharpe Ratio.

The added value of this study lies in the fact that it is a pioneer study attempting to assess performance of mutual funds in Ghana using the conventional methods of measurement outlined above using information provided by New Generation Investment Services Limited and the Ghana Stock Exchange.

The term Mutual Funds, which is one of the most recent investment platforms in Ghana's capital market, has still not been fully ingrained into the investment culture in our country. With Ghana having about six mutual funds to its credit, it is essential that one knows what a mutual fund is, as well as understand how its performance is measured. Though there was an overwhelming response of the general public to these mutual funds, the returns posted by the mutual funds at the close of 2005, were not entirely commensurate with investor expectation.

Giving the performance, of the Anidaso Mutual Fund since its inception, the fund has been able to post an average return which generally comparable to that of the GSE index. Given the performance of the Anidaso Mutual Fund, it will be financially prudent for clients to invest in the fund given the risk adjusted return.

The perception survey shows that a lot more of the clientele are satisfied with the returns on their investment with the mutual funds, and as a result, there is the potential of recruiting even more customers.

This is because of the fact that the fund has the potential to grow and yield greater returns for the customers within the medium to long term, therefore making it an attractive form of investment.

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## Dedication

This dissertation is dedicated to my parents who by dint of hard work have instilled in me the discipline and the strong desire to achieve greater heights. Their care and love and constant attention is unparalleled, and this has brought me this far. My gratitude goes to my lovely wife and friend, without whom I could not have gone through the long nights of typing after tiring working days.

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# CHAPTER ONE

## 1.0 Introduction

The achievement of sustainable development, particularly in the context of free markets, requires high levels of long-term domestic savings and private investment as demonstrated by the newly developed Asian countries. Historically, in Africa, private and long-term domestic savings have been low. Recent economic and financial reforms have improved on the adequacy of the financial system. This includes the development of stock markets and other economic and financial liberalization programmes.

Measuring fund performance is important both because of the scale of the mutual fund industry and also because of its implications for efficient market theory. Currently, the scale of the mutual fund industry in Ghana is believed to be about USD 3.1 billion in assets and rising.

An exciting milestone in every individual's financial life is the beginning of a personal investment programme in stocks, bonds, and other securities (Marshall, McManus, Viele, 2002). A number of questions about one's capability to accept risks involved must be answered before an investment plan is put into action; it is appropriate for most people to consult a trusted financial advisor to help them understand and answer those questions and to establish a sensible plan.

One investment medium appropriate for many people is an investment company, or mutual fund (Marshall, McManus, Viele, 2002). Investors purchase shares of the mutual fund, which uses the money received from investors to purchase shares of common stock, preferred stock, and bonds. In essence, each investor owns a share of the portfolio of securities owned by the mutual fund. Shares in some mutual funds are purchased through registered representatives employed by a brokerage firm, and in some other cases, the investor purchases shares directly from the mutual fund.

Whenever an investor invests in some shares, or a company invests in a new project, there will be some risk involved. The actual return on the investment might be better or worse than expected. Investors must take the rough with the smooth and for reasons out of their control (Mayo, 2000); returns might be higher or lower than expected. Provided that the investor diversifies his investments in a suitably wide portfolio, the investments which perform well and those which perform badly should tend to cancel each other out, and much of the risk can be diversified away. Mutual funds provide the needed diversified portfolio; however, like any other investment, some amount of risk is unavoidable. As a mutual fund investor, one should always consider a mutual fund's prospectus before handing over the money.

Since investors have varying degrees of risk tolerance, the risk selection, the risk section of a prospectus is extremely important (Bogle, 1997). It details the risks that are associated with a particular fund, such as credit risk, interest rate risk, and market risk, among others. A downside is that many people are 'sold' fund that either does not meet their investing time frame or one that does not match a basic index-fund (Bogle, 1997). The public does not invest in funds that historically perform poorly, so to keep its customers, the mutual fund industry transform their bad funds into better performing funds. This means that reports of the funds performance are skewed by survivorship bias, which makes you think a funds beats the market when it actually underperforms (Bogle, 1997). Survivorship bias (www.investopedia.com) occurs when funds with poor performance have been wiped out or made to disappear while strong performers continue to exist, creating skewed statistical data: survivorship bias makes it appear as though the poor performers never existed at all. In other words, to hide any poor performance, the funds that exhibited bad returns would have been closed or merged into other funds.

Mutual funds (Brigham, 1992) are corporations which accept money from savers and then use these funds to buy stocks, long-term bonds or short-term bonds, or short-term debt instruments issued by businesses or government units. This study attempts to assess the performance of mutual funds, particularly the Anidaso Mutual Fund from New Generation Investment Services Limited. It also tries to look at the various types of mutual funds currently available in the country and the different purposes they serve.

## 1.1 Problem Statement

Investments are made because the investor anticipates a return. The return on the investment is what the investor earns. This may be in the form of income, such as dividends and interest. An investor must be willing to bear some form of risk to achieve an expected return. Even relatively safe investments involve some risk; there is no completely safe investment. In addition to bearing risk, investors participate in efficient and competitive financial markets. Thus, since the Ghana Stock Exchange is a relatively new market, there is the likelihood of inefficiency coupled with the inescapable risk associated with investments. This inefficiency and the risk of investments even in diversified portfolios such as mutual funds coupled with the inability of the regulatory authorities to protect investors from losses associated with investment risks such as changes in the value of your investment resulting from volatility in share prices is the focus of this study.

It is therefore necessary that the investor exercises vigilance by spending time to understand the way financial markets operate and also follow closely the operations of the company in which the investor holds shares. Current trends suggest an increase in the number of mutual funds available, thus creating competition, as well as, government efforts in introducing tax-incentive based voluntary savings plans such as the long term savings scheme act, ACT 679 and the government bond all provide alternatives to mutual fund investment. It is therefore important to assess the performance of New Generation Investment Services Limited's Anidaso Mutual Fund as one providing optimal returns based on its set objectives.



The research questions can therefore be categorised as per the following:

1. How is the performance of mutual funds measured in Ghana?
2. How is this measurement applicable to the performance of the Anidaso Mutual Fund?
3. How do people perceive the performance of mutual funds with respect to the Anidaso Mutual Fund?
4. Is the Anidaso Mutual Fund an investment vehicle worth investing in?

## 1.2 Objectives

The main focus of this study is on the performance of the New Generation Investment Services Limited's mutual fund – Anidaso Mutual Fund. Differences in risk in the face of the similarity of returns give rise to large differences in risk-adjusted returns. Given these variations, it makes consummate good sense to evaluate each fund's returns on a category basis. To date, most mutual funds performance have been fairly simplistic: how has a fund performed relative to "the market"? But today, many funds resemble "the market" only tangentially. Also, in the case of Ghana, the non-existence of a robust performance measure in assessing mutual funds leaves room for subjectiveness, since each fund claims to have achieved so much based on no clear cut measure of optimality. Thus, this study will attempt to achieve the following:

1. Describe the state of mutual funds industry in Ghana
2. Undertake a perception analysis of Anidaso Mutual Fund members
3. Evaluate the performance of Anidaso Mutual Fund relative to the GSE index and assess the fund's returns relative to risk.
4. Make recommendations for management decisions.

## 1.3 Scope of the Research

As mentioned earlier, the focus of this study will be on the performance and risk associated with the Anidaso Mutual Fund which has created by the New Generation Investment Services Limited. The study will identify the objectives for the creation of the fund as well as its achievements till date.

## 1.4 Research Methods

In an attempt to achieve the objectives stated, data sources for this study included primary and secondary data. The primary data provided first-hand information from the service providers on the historical performance and a series of interviews to assess the quality and future of the Anidaso Mutual fund portfolio management. The secondary data on the other hand provided a descriptive study on the various tools of measurement employed in mutual fund assessment and their relevance in the Ghanaian context.

The assessment, measurement and interpretation of the above objectives involved various methods of analysis. Using standard deviation as a proxy for risk, this study attempted to measure the volatility associated with mutual funds especially, the Anidaso Mutual Fund. The tools employed included quantitative and qualitative tools, some of which are simple statistical tools such as standard deviation and simple average, and other economic tools such as the Sharpe's Ratio.



## 1.5 Limitations of the Study

The main setback for this study was the limited time period as well as the fact that it is a pioneer study thus information on the performance of mutual funds and it is associated cases were non-existent in Ghana. Also, information asymmetry associated with Private Investment business was a major hurdle. Thus, on many occasions accessing certain vital information especially on how the fund manager makes investments on behalf of fund members was close to impossible. These setbacks notwithstanding other relevant data was acquired which bridged the various setbacks encountered.

## 1.6 Justification of the Study

For individual investors today, mutual funds are without doubt, the investment vehicle of choice. The fact is more people invest in mutual funds than any other type of investment in any efficient and competitive financial market. The reason they are so popular is that, they offer not only a variety of interesting investment opportunities, but also a wide array of services that many investors find appealing. This appeal is evident in the increasing number of people associated with mutual fund investment in Ghana. Also, the obvious addition of new types of mutual funds, also attest to their growing popularity.

The evidence is that there is very little consistency in performance from one year to the next. Those that outperform during one period are just as likely to underperform as they are to outperform the market during the next period. It looks something like this; in most years, about 55 percent of professionally managed portfolios do worse than the S & P 500 and about 45 percent do better (after you subtract management fees). Now, if there is a 50 percent probability of beating the market in one year period by luck, then there is a 25 percent probability of beating it with luck in two successive years (.5 times .5 - .25).

The fatal flaw in mutual fund performance evaluation is that it assumes that the future will be like the past. But that is rarely true because the world is changing all the time, and what works one period (by luck or skill) may not work the next period.

Mutual funds clearly offer significantly diversification benefits; however, the performance of these funds is volatile. Thus the selection of superior performing funds is an issue that even the academic literature after several decades of debate has been unable to resolve.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.0 Introduction

The literature review seeks to assess existing literature on mutual funds and also perform a review of the historical antecedents of mutual funds.

## 2.1 History of Mutual Funds

Mutual funds were first started in the Netherlands in 1822, and the second in Scotland in the 1880's. Originally called investment trusts, the first American one was the New York Stock Trust, established in 1889. Most that followed begun in Boston in the early 1920's, including the state street fund, Massachusetts Investment Trust (now called MFS), Fidelity, Scudder, Pioneer and the Putnam Fund.

In the 1960's, there was a phenomenal rise in aggressive growth funds with very high risks. Sometimes, called "go- go" or "hot – shot funds", they received the majority of billions of dollars flowing into mutual funds at that time. Between 1968 and 1969, over 100 of these new aggressive funds were established (Woodard, 2003).

In 1969 there was a severe bear market resulting from a myriad of factors. People disillusioned with stocks and mutual funds, panicked investors referred to the phenomenon as "the market toast", they believed the market would never get back to where it was (Woodard, 2003). Unemployment grew; inflation went crazy, and investors pulled billions back out of the funds. They should have hung in there because many funds had risen by 9000% since then.

At the end of the 1920's, there were only 10 mutual funds mainly in Europe. At the end of the 1960's, there were 244 mutual funds in the United Kingdom and Europe. Today, there are more than 6500 unique funds and even several more that differ only by their share class (i.e how they are sold, and how their expenses are charged). The 1970's saw a new kind of fund innovation; funds with no sales commission called "no load" funds. The largest and most successful of the no load family of funds is the Vanguard Funds, created by John Bogle in 1977.

## 2.2 Nature of Mutual Funds



Mutual funds are open – ended investment companies (Mayo, 2000). This means that, unlike the first trust schemes which were closed – ended and offered a specific number of shares, mutual funds offer a much wider variety. These early investment companies provided a fixed number of shares and used the funds that were obtained, through the sale of the stock certificates, to acquire shares from other firms. Today, the descendants of these companies are referred to as closed-end investment companies because the number of shares is fixed. On the other hand, mutual funds provide an unlimited number of shares, and these vary as investors buy more shares from the trust or sell them back to the trust. Although closed-end investment companies are similar to open-end investment companies, there are important differences.

The first concerns their capital structure. Shares in mutual funds are not traded in the secondary markets. Instead, an investor purchases shares directly from the fund at the net asset value plus any applicable sales charge. After receiving the money, the mutual fund issues new shares and purchases assets with these newly acquired funds. If an investor owns shares in the fund and wants to liquidate the position, the shares are sold back to the company at the net asset value minus any applicable sales charge. The shares are redeemed, and the fund pays the investor from its cash holdings. It the fund lacks sufficient cash, it will sell some of the securities it owns to obtain money to redeem the shares. The fund cannot suspend this redemption feature except in an emergency, and then it may be done only with the permission of the Securities and Exchange Commission (Mayo, 2000). Mutual funds offer a wide range of services that investors find appealing. A mutual fund is basically a financial services organisation that receives money from its shareholders and then invests those funds on their behalf in a diversified portfolio of securities. As such, an investment in mutual funds represent an ownership position in a professionally managed portfolio of securities; when you buy shares in a mutual fund you become a part owner of that portfolio.

The second difference between closed-end and open-end investment companies is the source of return to the investor. As with the closed-end investment companies, individuals may profit from investments in mutual funds from several sources. Any income that is earned from the fund's assets in excess of expenses is distributed as dividends. If the fund's assets appreciate in value and the fund realizes these profits, the gains are distributed as capital gains. If the net asset value of the shares appreciates, the investor may redeem them at the appreciated price. Thus, in general, the open-end mutual fund offers investors the same means of earning profits as the closed-end investment company does, with one exception. In the case of closed-end investment companies, the price of the stock may rise relative to the net asset value of the shares. The possibility of a decreased discount of an increase premium is a potential source of profit that is available only through closed-end investment companies. It does not exist for mutual funds because their shares never sell at a discount. They actually sell for premium if a sales charge is added to the net asset value).

Hence, changes in the discount or premium are a source of profit or loss to investors in closed-end but not in open-end investment companies.

A third important difference between open-end and closed-end investment companies pertains to the cost of investing. Mutual funds continuously offer to sell new shares, and these shares may be sold at their net asset value plus a sales fee, which is commonly called a loading charge. These costs and others are disclosed in the mutual fund's prospectus. When the investor liquidates the position, the shares are redeemed at their net asset value. For most funds, no additional fees are charged for the sale. The loading fee may range from zero for no-load mutual funds to between 3 to 6 percent for load funds (Mayo, 2000).



In addition to loading charges, investors in mutual funds have to pay a variety of other expenses. Each mutual fund is required to disclose in its prospectus these various costs, which are generally referred to as "fees and expenses". The cost associated with researching specific assets, brokerage fees charges when the fund buys and sells securities and compensation to management are costs that the investor must bear. These expenses are the cost of owning the shares and are in addition to any sales fees (loading charges) the investor pays when the shares are purchased. The costs of owning the shares are generally expressed as a percentage of the fund's assets.



## 2.3 The Mutual Fund Concept.

Mutual fund investors come from all walks of life and all income levels. They all share one common view, that is, they have decided to turn the problems of security selection and portfolio management over professional money changers (Gitman, and Joehnk, 1999). Investors therefore avoid the questions of which stock or bond to select, when to buy or sell.

The mutual fund concept is thus based on the simple idea of turning the problems of security selection over to professionals. In essence, a mutual fund combines the investment capital of many people with similar investment goals, and invests the funds for those individuals in a wide variety of securities.

Investors receive shares of stock in mutual fund and, through the fund, are able to enjoy much wider investment diversification than they could otherwise achieve. When dividend and interest payment are received by the fund, they are passed on to the mutual fund shareholders and distributed on the basis of prorated ownership. For instance, if you own 1000 shares of stock in a mutual fund and that represents, say, 1 percent of all shares outstanding, you will receive 1 percent of the dividends paid by the fund. When a security held by the fund is sold for profit, the capital gain is also passed on to fund shareholders. The whole mutual fund idea as a matter of fact, rests on the concept of pooled diversification, and works very much like insurance (Gitman, Joehnk, 1999), whereby individuals pool their resources for the collective benefit of all the contributors.

## 2.4 Rationale for Mutual Fund Investment

Mutual funds can be used by individuals in a variety of ways. Thus, whereas one investor may buy a fund because of the capital gains opportunities it provides, another may buy totally different fund not for its capital gains, but for its current income (Mayo, 2000). Regardless of the kind of income a fund provides, individuals tend to use these investment vehicles for one or more of the following reasons:

1. To achieve diversification in their investment holdings

2. To obtain the services of professional managers

3. To generate an attractive rate of return on their investment capital

4. For the convenience they offer

The advantages and services help to explain why both the number of mutual funds and the dollar value of their shares have grown dramatically during the last 25 years. According to the data available through the Investment Company Institute (www.ici.org), the total number of funds in 1970 was 361. At the end of 1990, the number had risen to 2,362, and only seven years later the number of mutual funds exceeded 5,700. As of 1997, there were slightly more than 3,000 stocks traded on the New York Stock Exchange. The number of funds almost doubled the number of stocks. Of the 5,765 funds, 3,014 were stock funds, and 2,751 were income funds. There were also 1,013 money market mutual funds. Although 5,765 may seem like a large number of equity and bond funds, there are over 27,800 mutual funds worldwide (Mayo, 2000).



### 2.5 Types of Funds

Some mutual funds specialize in stocks and others in bonds; some funds have maximum capital gains as their investment objective, and some seek high current income. Some funds will appeal to speculators and other primarily to income-oriented investors. Every fund has a particular investment objective, some of the most common ones being capital appreciation, income, tax-exempt income, preservation of investment capital, or some combination thereof. Disclosure of a fund's investment objective is required by the

Securities and Exchange Commission, and each fund is expected to do its best to conform to its stated investment policy and objective. (Mayo 2000)

Categorizing funds according to their investment policies and objectives is widely practiced in the mutual fund industry, as it tends to reflect similarities not only on how the funds manage their money, but also in their risk and return characteristics. Some of the more popular types of mutual funds include growth, aggressive growth, equity-income, balanced, growth-and-income, bond, money market, index, sector, socially responsible, international, and asset allocation of funds.

Alternatively, mutual funds may also be classified according to investment style (Mayo, 2000). Investment style refers to a portfolio manager's investment philosophy or investment strategy. Possible styles include the size of firms acquired by the fund or the approach used to select the firms. Firm size refers to large cap, mid-size cap, or small cap. The word "cap" is short for capitalization, which refers to the market value of the company (Mayo, 2000). The market value is the number of shares outstanding multiplied by the market price. Large cap stocks are the largest companies with market value exceeding $1 billion. A small cap is a much smaller firm with a value of less than $300 million. The mid-cap thus, lies between the two extremes.



### 2.5.1 Growth Funds

The objective of growth funds is simple-capital appreciation. Long-term growth and capital gains are the primary goals of such funds, and as a result, they invest principally in common stocks that have above average growth potential. Because of the uncertain nature of their investment income, growth funds involve a fair amount of risk exposure.

They are usually viewed as long-term investment vehicles that are most suitable for the more aggressive investor who wants to build and has little interest in current income.

### 2.5.2 Aggressive Growth Funds

Aggressive growth fund is also another type of mutual fund. These are the so-called performance funds that tend to increase in popularity when the market heats up. Aggressive growth funds are highly speculative investment vehicles that seek large profits from capital gains; in many respects, they are really an extension of the growth fund concept. Many are fairly small, with portfolio consisting mainly of high-flying common stocks (Mayo 2000).

Aggressive growth funds are highly speculative and perhaps are the most the most volatile of all the fund types. When the markets are good, these funds do well, when the market are bad, they typically experience substantial losses.

### 2.5.3 Equity – Income Funds

Equity-income funds emphasize current income, which they provide by investing primarily in high-yielding common stocks. Capital preservation is also a goal of these funds, and so is some amount of capital gains, although capital appreciation is not their primary objective. They invest heavily in high-grade common stocks, some convertible securities and preferred stocks, and occasionally even junk bonds or certain types of high-grade foreign bonds (Mayo 2000).

They like securities that generate hefty dividend yields, but also consider potential price appreciation over the long haul. In general, because of their emphasis on dividends current income, these funds tend to hold higher quality securities that are subject to less price volatility than the market as a whole. They are generally viewed as a fairly low-risk way of investing in stocks.

### 2.5.4 Balanced Funds

Balanced funds are so named because they tend to hold a balanced portfolio of both stocks and bonds, and they do so for the purpose of generating a well balanced return of both current income and long-term capital gains. In many respects, they are not a lot like equity-income funds, except that balanced funds usually put much more into fixed-income securities, generally they keep at least 25 percent to 50 percent of their portfolio in bonds and sometimes more. The bonds are used principally to provide current income, and stocks are selected mainly for their long-term growth potential. The funds can tilt the emphasis in their security holding one way or another (Mayo 2000).

Clearly, the more the fund leans towards fixed-income securities, the more income oriented it will be. For the most part, balanced funds tend to confine their investing to high grade securities. As such, they are usually considered to be relatively safe form of investing, one where you can earn a competitive rate of return without having to endure a lot of price volatility.

### 2.5.5 Growth – and – Income Funds

Growth-and-income funds are like balanced funds, they seek a balanced return made up of both current income and long-term capital gains, placing a greater emphasis on the growth of capital. Moreover, unlike balanced funds, growth-and-income funds put most of their money into equities indeed; it is not unusual for these funds to have 80 to 90 percent of their capital in common stocks. They tend to confine most of their investing to highly quality issues, so one expects to find a lot of growth-oriented blue chip stocks (Gitundu, 2009).

One big appeal of these funds is the fairly substantial returns many of them have been able to generate over the long haul. But then, these funds do involve a fair amount of risk. If for no other reason than the emphasis they place on stocks and capital gains. Consequently, growth-and-income funds are most suitable for those investors who can tolerate their risk and price volatility.



### 2.5.6 Bond Funds

Bond funds invest exclusively in various kinds and grades of bonds. Income is their primary investment objective, although they do not ignore capital gains. There are three important advantages to buying shares in bond funds rather than investing directly in bonds. Firstly, bond funds generally are more liquid, secondly, they offer a cost-effective way of achieving a high degree of diversification in an otherwise expensive vehicle (most bonds carry minimum of $1000 to $5000, or more); and thirdly, bond funds will automatically reinvest interest and other income, thereby allowing the investor to earn a fully compounded rates of return (Gitundu, 2009).

Although bond funds are usually considered to be fairly conservative forms of investment, they are not totally without risk, since the prices of bonds held in the funds' portfolio will fluctuate with changing interest rates. Though many of the funds are basically conservative, a growing number are becoming increasingly aggressive. In fact, much of the growth that bond funds have experienced in the recent past can be attributed to this new investment attitude. No matter what your tastes, you will find a full menu of bond funs available, including:

- Government bond funds, which invest in treasury and agency securities
- Mortgage-backed bond funds, which put money into various types of mortgage-backed securities issued by agencies of the government.
- High-yield corporate bond funds, which are risky investment that buy junk bonds for the yields that offer
- Convertible bond funds which invest primarily in domestic and possibly foreign securities that can be converted or exchanged into common stocks.
- Municipal bond funds, which invest in tax-exempt securities, and which are suitable for investors looking for tax free income. Like their corporate counterparts, municipals can also come out as either high-grade or high yield funds.
- Intermediate-term bond funds, which invest in bonds with maturities of seven to ten years, or less, and offer not only attractive yields but relatively low price volatility as well; shorter (two-to-five-year) funds are also available and can be used as substitutes for money markets investment by investors looking for higher returns on their money, especially when short-term rates are way down.

### 2.5.7 Money Market Mutual Funds

First introduced in 1972, the concept of investing in a portfolio of short-term money instruments has made the money market mutual funds very popular. The reason for the popularity lies with the fact that investors with modest capital are given access to the higher-yielding end of the money market (Mayo, 2000).

Actually, there are several different kinds of money market mutual funds. General purpose money funds essentially invest in any and all types of money market investment vehicles, from Treasury bills to Corporate Paper and Bank Certificates of Deposit. They invest their money wherever they can find attractive short-term returns. The vast majority of money funds are this type.

Money funds are highly liquid investment vehicles and are very low in risk, since they are virtually immune to capital loss. However, the interest incomes they produce tend to follow interest rate conditions, and as such returns to shareholders are subject to the ups and downs of market interest rates.

### 2.5.8 Exchange Traded Funds (ETF's)

The basic idea of any mutual fund is to pool money from a large number of investors so that a large number of securities can be purchased efficiently. Each investor therefore gains the advantage of being well diversified, without the time and expense of having to purchase the individual securities. Exchange traded mutual funds are just another variation on this theme--except that they trade on a stock market like an ordinary stock (Martingale, 2005).

There are a few key differences between an ETF and a traditional "open-ended" mutual fund that you would buy directly from a fund vendor:

- You will need a "self-directed" trading account with a discount stock broker
- You have to pay trading fees and spreads to buy an ETF, just like you do when you buy a regular stock, but you won't pay any other "loads".

- Whereas investors can redeem units of a traditional mutual fund an ETF generally does not permit redemptions. Instead you sell your units on the market like you would sell any other stock.

Exchange traded funds have several key advantages over traditional open-ended mutual funds:

- ETFs tend to have lower MER fees. This is the main reason why we're talking about them. In the United States this isn't true--they have open-ended funds with even lower fees--and hopefully, eventually, that will happen here in Canada too.
- The ETF doesn't have to execute redemptions (with a conventional fund you can call your broker and exchange your units for money, this is called a redemption). To turn your ETFs into cash you sell them on the stock market, not back to the fund. This saves the fund money because it has much less work to do, and it's vitally important during a market downturn when many investors rush to sell their units. With traditional funds this incurs high costs as the fund has to come up with the money by selling a large number of stocks while the market is falling. That activity hurts those who stayed in the traditional fund, not just those who panic and sell.
- You don't have to worry about being a victim of the "market timing" tricks that have been in the news recently, where sophisticated investors flip in and out of a fund extracting a profit at the expense of long-term fund investors. The fund trades on a market, so this attack on the fund simply isn't possible. (This scam depends on being able to place orders to buy and sell the fund with information that came out after the fund's daily price came out. An ETF doesn't have a "daily price" that is set by anyone, it trades on a stock market instead.)
- You can buy US ETFs on the market like any other US stock, whereas US mutual funds are simply not available to you in an RRSP.

The main advantage, though, is price. That's mitigated somewhat by the main disadvantage:

- You have to pay $25 to $29 to your broker every time you buy or sell, plus
- You implicitly pay the difference between the bid and ask spread

## 2.6 Services Offered by Mutual Funds

Many people are drawn to mutual funds because of their attractive returns. However, there are other reasons to invest in them, including their automatic investment and reinvestment plans, regular income programs, conversation privileges, and retirement plans (Gitman, Joehnk, 1999). These are all examples of mutual fund services that many investors consider valuable and, in fact, are sometimes the primary reasons for buying these funds.



## 2.7 Mutual Fund Performance

The first study of mutual fund performance was in 1969 by Michael Jensen who concluded that there was no evidence that mutual fund earned greater than a risk-adjusted return. Since the Jensen study, there has been over 300 performance studios, most of which have agreed with the Jensen conclusion. The following paragraphs summarize some of the recent studies and a brief synopsis of their conclusion.

Recently, Hendricks, Patel and Zechkhauser (1993) concluded that short-term mutual fund performance persists with the poor funds performing poorly in the future and the good funds performing well in the future.

Malkiel (1995) using all funds with at least one year of existence between 1971 – 1991 finds that not strategy, including buying Forbes recommended funds, outperform a passive strategy.

Gruber (1996) finds that buying the top docile firms and selling the low docile firms gives a 28 basis points in performance per year over a risk adjusted return for a group of funds that begun 1984 (dead funds included in sample and ending in 1994).

Carhart (1997) examines all mutual funds that had at least one month of existence between 1962 – 1993 (no survivorship bias) finds that common factors explains the persistence in the performance of top mutual funds. He finds that expense ratios, turnover and load fees are significantly and negatively related to performance.

All these studies find that risk-adjustment and survivorship bias is a critical issue in measuring performance. Not just adjusting survivorship bias adds as much as 1.4% per year to estimated performance over a risk-adjusted return for funds that survive ten years.

Another school of thought led by Ippolito's (1993) summary piece, suggests that mutual fund returns, after expenses (but before loads), are equivalent or superior to those available from a risk-adjusted market index, which implies that mutual fund managers may have access to useful private information where they may generate excess returns sufficient to cover expenses. Grinblatt and Titman (1992), Hendricks, Patel and Zeckhauser (1993), Goetzmann and Ibbotson (1994) and Volkman and Wohar (1995) provide further support for market efficiency by finding evidence of repeated winners among fund managers and positive performance persistence. In recent study, Wermers (2000) decomposes mutual fund returns into stock picking talent, characteristics of stock holdings, trading cost and expenses; he finds that funds stock picking enables them to cover their costs.

# CHAPTER THREE

# MUTUAL FUNDS IN GHANA

## 3.0 Introduction

The Ghanaian bond market, until recently, had been relatively inactive. Since the onset of the liberalization of the economy and the establishment of the Ghana Stock Exchange in 1990 various financial institutions offering a wide range of innovative financing products were set up. This widened the number of financing methods available to businesses and other investors. Some of these products included cedi and US dollar denominated negotiable certificate of deposits, 30-day repurchase agreements and commercial papers issued by companies through the Discount Houses.

However these products served only the short end of the market because of the domestic economic conditions which could not favour a long-term debt instrument.
The lack of a vibrant bond market in Ghana can be attributed to the unfavourable economic environment for the last decade and to the availability of other investment substitutes.

In the early 1990s the domestic economy was under severe strain from inflationary pressures which was caused by a number of factors. Money supply expanded rapidly as a result of deficit financing especially in the latter part of 1992. This constituted a major menace to the economy. The monetary expansion resulted in a high level of liquidity in the economy. This was the major contributory factor to the resurgence of inflation pressures towards the mid 90s. In the 1990 average annual rate of inflation fell to 37.2% but rose to 59.5% in 1995 and 46.6 in 1996.

The inflationary situation was further reinforced by the continued depreciation of the cedi and higher petroleum prices imposed by the government budget which had an instant effect of increasing the prices of most goods and services. Thus, in the highly unstable inflationary environment investors did not favour instruments that paid a fixed rate into the long term. Investors preferred to invest in relatively high yielding but risk free instruments like Treasury bills. In 1990, 1995 and 1996 the average 91-day Treasury bill rate was 27.50%, 35.5% and 38.5% respectively.

Furthermore, in the high inflationary environment, interest rates were also at high levels. This posed a major problem for industrialists who had to compete with the government in raising funds from the financial markets. As a result investors (including banks) found a safe haven in government securities (short-term treasury bills) to the detriment of the productive sectors of the economy where the risk of default is high.

Another avenue for investors' funds was investment in stocks. The Ghana Stock Exchange after a dismal performance in the first two years of its establishment recorded returns of 113.74% and 124.34% in 1993 and 1994 far above the inflationary rate and returns on other investments. This served as an incentive to individual and institutional investors to invest in shares.

The above factors accounted for the very few number of long term debts especially bonds on the market.

### 3.1 Investments In Ghana

Unfortunately, most Ghanaians especially those in the middle and low income groups do not have any form of investment plan because of the wrong notion that you have to invest a huge amount of money for the investment to be worthwhile. Consequently, many people fail to plan, let alone invest (Dewotor, 2000). Over the years, most Ghanaians have found it worthwhile to invest in treasury bills because of the high and secure returns it provides. Treasury bills have yielded an average annual return of 34% over the past 10 years. Savings accounts and fixed deposit accounts are also in the relatively low risk bracket and therefore give relatively low returns.



Current trends in the investment banking and insurance industry as well as heightened activity on the Ghana Stock Exchange have encouraged individual investment in shares and allied securities. Shares carry the greatest short-term risk but promise the highest expected return over the long-term. Shares listed on the Ghana Stock Exchange have yielded average returns as high as 47% a year over the past nine years. Other investment products which have encouraged individual investments include the HFC – Unit Trust which invests in both short-term and long-term securities, Databank's Epack Investment fund which invests in shares listed on the Ghana Stock Exchange, and the Anidaso Mutual Fund which offers investors the potential for capital gains, dividend and/or interest income by investing in securities on the stock market.

Mutual funds are also affordable and units can be bought in relatively small amounts. For instance, the price of most mutual funds at their initial public offerings were one thousand old Ghana cedis (10 Ghana pesewas), including NTHC's Horizon Fund, SAS's Fortune Fund and HFC's Equity Fund. This affordability, coupled with the fact that investors can buy units of mutual funds on a regular basis makes this form of investment very attractive.

Anidaso Mutual Fund from New Generation Investment Service Limited is an example of mutual funds in which monthly contributions can be made. The minimum investment required by funds in Ghana range from GHC 5 (c 50,000) a month for regular contributory funds through to initial deposits ranging from GHC 10 to GHC 50 for some other funds including the Horizon Fund and the Fortune Fund.

## 3.2 Legal Environment for Mutual Fund Operations In Ghana



An amendment of PNDC Law 333, the Securities Industry Act of 2000, Act 590 set the tone for the required regulatory environment for the operation and running of mutual funds in Ghana. These regulations were further concretized in the Legislative Instrument 1659 on the Unit Trust and mutual funds which was passed into law in November 2001. The Legislative Instrument (1659) provides the legal and regulatory framework for the operation of mutual funds and unit trusts in Ghana. This legislative instrument (L.I) 1659 allows the Securities and Exchange Commission to go ahead with the licensing of prospective operators in the industry. (SEC Annual report 2001). Also, institutions such as the Ghana Stock Exchange, the Securities Exchange Commission and the Bank of Ghana provide the regulatory environment required for the operation of an effective and efficient financial environment.

According to section 49 of LI 1659, investors should provide annual and half – yearly investors' reports in respect of each annual and half-yearly accounting period in order to facilitate the review of the performance of the scheme by the holders of interest. The Legislative Instrument is explicit on the context expected in such reports as indicated in sub-sections 2a through to 3f of section 49. The Instrument enjoins mutual funds to submit to the Securities Exchange Commission an investors' report also on an annual and half-yearly basis. In section 50 of the Legislative instrument, it is emphatic that no sale of interest should be made to investors or any person unless that person has been issued with a free copy of the most recent half – year investors' report.

As per operations and regulations mutual funds are required in section 93 of the Legislative Instrument (LI) 1659 include performance data or estimated yield in their scheme particulars and upon request from the commission justify the contents of their calculations. Also, the section makes reference to the act that no forecast of the scheme's performance should be made in any of its documents.



### 3.3 Mutual Funds and Their Operations In Ghana

The Ghana Stock Exchange (Darko, 2003) has been in operation since 1990, listing 24 companies and raising a total capital of 235.46 billion cedis ($173.67 million) for these listed companies. Total market returns over the period is 4043% which compares favourably with other financial instruments returns like dollar (2087%) and the famous government treasury bills (3066%). It is sad to note however, that the Ghanaian investor has not benefited much from this performance. Statistics show that most of the companies are 70% owned by foreigners, whilst the remaining 30% are in the hands of few Ghanaians. Most Ghanaians are familiar with the Susu schemes, where a group of people pool their monies together and give it to one member (Darko, 2003). The group then starts the contribution again to give the proceeds to the next beneficiary till every member gets his or her share. Susu schemes are not invested into earn returns, hence members lose potential income from investments and the real value of their contributions reduces with time (Darko, 2003). The mutual fund on the contrary is invested to make returns and hedge against depreciating the real value of your investment.

Analysts say that the emergence of mutual funds and unit trusts are indications of the development of the country's capital markets and gives investors other alternatives to invest. In 2004, there were about four mutual funds in the country: the Horizon Fund, a hybrid mutual fund by National Trust Holding Company (NTHC), the Fortune Fund by Strategic African Securities Limited, M-fund and EPA¢K by Databank. The EPA¢K mutual fund was the first mutual fund in Ghana. However, by 2003, other investment houses caught the mutual fund concept and therefore decided to be part of this investment signalling a strong performance of the economy.

These funds included, The Horizon Fund, managed by NTHC, Strategic African Securities (SAS's) Fortune Fund, HFC's Equity Fund, and Databank's Money Market Fund. There is also the Anidaso Mutual Fund which is an open – ended, regulated investment company administered and sponsored by the New Generation Investment Services Limited, who serve as advisor to the fund.

NTHC's Horizon Fund, which is an open-ended fund, held its initial public offer from June 14th 2004, to August 20th 2004. This is the first Balanced Fund in Ghana, with the fund managers investing in equities listed on the Ghana Stock Exchange and Money Market Instruments. The objective of the fund is to optimize the investor's total returns and at the close of 2004, posted returns of 4.92% , placing its price at ¢1,049.20.

SAS's Fortune Fund was introduced into Ghana in July at an initial price of ¢1,000 and with the objective of raising ¢500 million at the close of its initial public offer. The fund received an overwhelming response from Ghanaians with an oversubscription of about ¢4.5 billion.

However, at the close of 2004, the price of the fund was pegged at ¢1,039 per unit representing a gain of 3.9%.

HFC's Equity Fund conducted its initial public offering from July 31 to September 15 2004 with an initial price of ¢1000. The price of a unit of the fund was ¢1,040 at the close of 2004, reflecting a 4% year-to-date yield.

Databank's Money Market Fund held its initial offer between April and May 2004 offer price of ¢1000. The bid and offer prices of the money market mutual fund were ¢1,124.71 and ¢1,135.50, representing an annualized yield of 18.81%.

The Anidaso Mutual Fund was incorporated as a private Limited liability company under Ghanaian Law on March 19th 2004. The company was re-incorporated as a public liability company on October 22nd 2004 and the Certificate to commence business was issued on October 25th 2005. The fund is designed for prospective investors who seek to maximise their total returns by investing in securities that offer the potential for capital gains, dividend and/or interest income. When gains and income are added together, the total can be calculated as a percentage of the amount invested, producing a "Total" Return in percentage terms. This percentage allows investors to fairly compare the performance of Anidaso Fund with investment sectors, funds or securities having similar risk and financial traits. The initial offer price was ¢1,000, with 1,360,000 shares on offer. The minimum subscription was 500 shares and thereafter in multiples of 100.

Though there was an overwhelming response of the general public to these mutual funds, the returns posted by the mutual funds at the close of 2004, were not commensurate with investor expectation. With an average existence of six months, these funds posted returns as low as 3.9%, as compared to an 8.9% return on the 182-day treasury bill for the same period.

The returns made by the newly introduced mutual funds were not impressive because most of the funds started operating after the third quarter of 2004, when most shares had hit their peaks, following the bull run of the firs half of the year (Boateng, R. A 2005). This made it impossible for the shares to advance further northwards within the five months that most of them had to prove their competencies. Another reason for the modest returns posted by the mutual funds was the inadequate supply of less expensive stocks (stocks with low price/earnings rations that had the potential of making higher returns during the rest of the year) compared to demand during their period of operations last year.

The mutual funds therefore did not have an adequate supply of all the stocks they had wanted to include in their portfolios. These issues call for the diversification of investment to cover markets in other parts of the world. The fund managers of Epa¢k, Databank Asset Management Fund Limited (DAMSEL) took the bold initiative of expanding the shares in its portfolios to cover other stock markets including Kenya, Namibia and Botswana (Boateng, 2005).

### 3.4 Patronage Of The Stock Market

Treasury bill rates have been comfortably high, ranging from 19% in 1992 to a high of 47% in 1997. Currently, the treasury bill rate hovers between 22% and 25%. This trend tends to discourage alternative forms of investment. Also, investors have not been properly educated on the operations of the stock exchange. This is evident in the misconception some investors had investments in Ashanti Goldfields Company (AGC), where some investors thought they will be given gold bars as shareholders. It is important to note that high treasury bill returns tend to be short lived because the rates affect interest rates and any government who wants to secure its mandate and to remain popular must endeavour to bring treasury bill rates down to lower the cost to capital.

Recent over subscription of IPS's on the stock exchange is indicative of increasing interest of people in finding alternative investment instruments. Also the treasury bill returns have been significantly low and thus alternative instruments such as stocks, mutual funds and money market funds have substituted the hitherto "valued form" of investment in the form of Treasury bills.



### 3.5 Anidaso Mutual Fund – The Case Study

The Anidaso Mutual Fund is an open – ended, regulated Investment Company administered and sponsored by the New Generation Investment Services Limited, the investment advisors to the fund. The fund was incorporated as a private limited liability company under Ghanaian Law on March 19th 2004. The company was re-incorporated as a public liability company on October 22nd 2004 and the certificate to commence business was issued on October 25th 2004.

The nature of the business which the company is authorised to carry is to achieve a long-term capital growth by investing in a diversified portfolio of equity securities listed on the Ghana Stock Exchange and/or other regulated financial markets, and money market securities.

The fund is designed for prospective investors who seek to maximise their total returns by investing in securities that offer the potential for capital gains, dividend and/or interest income. When gains and income are added together, the total can be calculated as a percentage of the amount invested, producing a total return in percentage terms. This percentage then allows investors to fairly compare the performance of Anidaso Fund with investment sectors, funds or securities having similar risk and financial traits. The fund consists primarily of high yielding equities listed on the Ghana Stock Exchange (GSE), international stock exchanges in emerging markets, and money market instruments.

As the fund is an open-ended one, shares shall be offered and redeemed on continuous basis throughout the life of the fund at a price determined by the Net Asset Value (NAV) of the Fund. The fund is a legal entity constituted under the Companies Code of 1963, Act 179. By the powers and provision embedded in this Act, The Custodian under the agreement with the fund is empowered to protect the interest of investors by holding assets, securities and cash of the fund and income accrued.

The fund as approved by the board of Directors is to invest most often in the following areas:

- Securities listed on the Ghana Stock Exchange
- Securities listed on other regulated international financial markets
- Equities of public companies not listed on the Ghana Stock Exchange
- Money market instruments

The investment advisor, New Generation Investment Services Limited, will be responsible for managing the assets of the fund to maintain an investment portfolio that meets the fund's objectives. The advisor will be expected to fully comply with investment policy guidelines approved by the Board of Directors.

The investment policy is reflected in the asset allocation table below:

**Table 3.1: Asset Allocation Table (New Generation Investment Services Limited)**

| Underlying Asset | Asset Allocation Threshold |
|---|---|
| Equities | 70% - 80% |
| Money Market Instrument | 5% - 25% |
| Cash / Cash Equivalent | 5% - 10% |



The fund portfolio invests in shares and fixed-income securities in proportions designed to meet its investment objectives whiles minimising the risk of decline of the Net Asset Value. The mix between stocks and fixed investments changes at times in response to market conditions while maintaining some balance within these two major categories most of the time. When the market experiences major weaknesses, the fund reduces equity investments in favour of fixed-income investments to protect the asset value.



### 3.5.1 Investment Risks

As with all marketable securities, risk of price decline of the fund is unavoidable. During times when the fund is substantially in securities, its value can be adversely affected by a market decline. By investing in fixed-income securities, the fund is subject to interest rate risks associated with investment maturities. In its effort to match or exceed returns produced by the GSE market averages, the fund will attempt to minimise the risk of asset value declines. It seeks to do this by being less exposed to equities during periods when the general market is weak and being more exposed to equity when the general market is strong.

Even though that is the fund's objective, correct timing of movement from one type of investment to another is critical but difficult to accomplish successfully at all times. It is also important to note that the Net Asset Value of the fund may fluctuate owing to changes in the value of the underlying securities and macroeconomic factors. Shareholders should therefore be aware that, stock markets have seasons of up-periods, down-periods, and static periods, although the trend over the long period tends to move upwards.

### 3.5.2 Management Of The Fund

The New Generation Investment Services Limited has been contracted to manage the Anidaso Mutual Fund and as such will provide investment advisory services. NGIS Limited is a private limited company incorporated in Ghana under the Companies Code, 1963 (Act 179) on March 18th 2004, and licensed by the Securities & Exchange Commission to operate as an Investment Advisor.

The manager, in addition to the administration of the fund, may provide distribution and transfer agent functions. It has established an investment advisory and management services agreement with the fund and shall receive for compensation an amount of 2.5% per annum of the average monthly Net Asset Value of the fund.

The manager, by the management agreement, is responsible for the actual picking of securities to buy, sell, or hold to maintain the investment portfolio that meets the funds objectives. Furthermore, the manager will employ active equity strategies to select the securities that will outperform the market. The investment decisions will be based on analysis of the issuing companies, the impact of securities on the maturity time span of the portfolio, and the credit quality of the issuer.

The manager also performs at least the basic administrative services and ensuring that fund complies with SEC requirements.



### 3.5.3 Target Investors

Anidaso Mutual Fund is non-discriminatory and is thus open to all individuals, companies, and partnerships of any nationality. It therefore invites the participation of foreign and non-resident investors.

Specifically, the target investors of the fund will be the following:

1. Ghanaian citizens, companies and Associations
2. Non-Ghanaian citizens, companies and associations
3. Insurance Companies
4. Mainstream Banks, Rural Banks, and other Non-bank Financial institutions
5. Pensions, Provident and Endowment Funds
6. Religious Organizations and Educational Institutions.

### 3.5.4 Tax Incentives and Valuation of Shares

To allow investors to maximize their returns from investing in the Anidaso Mutual Fund, the fund takes full advantage of the tax incentives granted to Mutual funds and Unit Trusts by the Internal Revenue Act, 2000 (Act 592).

These include:

1. Capital gains tax exemption for capital gains on the sale of shares listed on the GSE
2. Interest dividends or any income of a Mutual Fund is exempt from tax
3. The redemption of dividends or interest income distributed by Mutual Funds to its shareholders.



In view of the changes in tax legislations, the fund manager will not be in the position to guarantee the investor's current or future after-tax incomes from the fund.

### 3.5.5 Investment Restrictions

Except with the prior approval of the Commission, the manager shall not undertake the following on behalf of the scheme:

i. Invest in commodities, futures or options
ii. Invest more than 10% of the Net Asset Value of the scheme in any type of Real Estate other than securities or Real Estate companies or companies that have engaged in Real Estate investment securities.
iii. Invest more than 25% of the Net Asset Value of the scheme in securities issued by a single issuer.

iv. Invest more that 10% of the Net Asset Value of the scheme in any particular class of securities issued by a single issuer.

v. Invest more than 10% of the Net Asset Value of the scheme in other collective investment schemes

vi. Invest more than 15% of the Net Asset Value of the scheme in securities not listed or quoted on an authorised stock exchange

vii. Purchase securities on margin, except that the Manager may obtain such short term credit as may be necessary for the clearance of purchases and sales of securities constituting or to be included in the assets of the scheme.

viii. Make any investments that will result in the Manager of the scheme gaining management control of a company in which investment has been made.

ix. Make short sale of securities or maintain a sort position.

x. Acquire any securities which are unpaid or partly paid for.

xi. Apply any part of the assets of the scheme in acquisition of an investment which is likely to involve the scheme in any liability, contingent or otherwise.

xii. Enter into underwriting or sub-underwriting contracts in relation to the subscription or purchase of any investment.

xiii. Invest in any securities of a class in a company or other body if any officer or collective officers of the Manager of the scheme own more than 5% of the total nominal amount of the securities of that class issued by the company or body.

xiv. Borrow more that 10% of the Net Asset of the Fund at the time of borrowing and only or liquidity purposes

xv. Enter into any hedging transaction except with prior approval by the Securities & Exchange Commission and unless it is covered. Such hedging transactions not closed out shall not exceed 10% of the Net Asset of the Fund.

### 3.5.6 Subscription to the Fund

Subscribing to the public offer of the fund is a straight-forward process in which subscribers will have to complete and sign correctly the application form in the Prospectus. Instructions are provided to assist applicants in filling the form.

After the initial public offer, shares in the fund can be subscribed on an on-going basis or redeemed through the Manager.



### 3.5.7 Expected Returns

The goal of maximizing portfolio returns with a minimum risk is a universal maxim within the investment community. The risks of value loss due to price changes or to deterioration in the issuer's financial health are vitally important influences in selecting investment types and specific securities within each type.

Accordingly, the Manager will invest the Fund assets in varying proportions in either fixed investments or equity investments according to the manager's view of the immediate outlook for each category.

The fund and its manager think that the high total returns are achievable over time if a portfolio can:

1. Minimize decline in investment value during periods of sustained stock price weakness by reinvesting largely in fixed income securities
2. Achieve average or better stock appreciation (as measured against GSE average) during periods of rising prices.

# CHAPTER FOUR

# RESEARCH METHODOLOGY

## 4.0 Introduction

In conducting a research like this it is important to identify methodology that is best suited to achieving the objectives of the study. In this light it is important to identify the most appropriate model which can assist in giving the most conclusive measure of the performance of the mutual fund.

## 4.1 Primary Data Source – Perceptive Survey

To begin with, it is important to be able to identify the sample size which best represents all the segments of general clientele of the New Generation Investment Services, especially those who patronise the Anidaso Mutual Fund.

In order to undertake the perceptive survey, there was the need to develop a questionnaire which will serve as the source of primary data. The sample size of 60 respondents was randomly selected from a sample frame of 210. This was to enable me get a most comprehensive perception of the performance of the fund from the client's perspective.

## 4.2 Customary Measures of Investment Performance

With the development of the Modern Portfolio Theory (PMT) and asset pricing theory, in particular the Capital Asset Pricing Model (CAPM), a standard theoretical framework could be applied to meet the challenges of performance measurement. Treynor (1965), Sharpe (1966), and Jensen (1968) were the first to realise the potential applications of MPT and CAPM for investment performance evaluation (FMRC, 2002).

Because of the relatively large number of mutual fund performance models, this potential creates a problem for both academics and practitioners, as to what model to use for performance measurement.

Portfolio Theory teaches that investment choices are made on the basis of expected risks and returns. These expectations are often formed on the basis of a historical record of monthly returns, measured for a period of time. For mutual funds, common measures include average excess return (total monthly return less the monthly return on Treasury Bills) and its standard deviation, tracked for a sufficient length of time, such as three to five years. A fund's risk and return can be combined into one measure of risk – adjusted performance by dividing the average excess return by the standard deviation. The resulting measure, known as the Sharpe Ratio, can help the investor to identify the most "efficient" fund, namely the one with the highest return per unit of risk. However, a universal measure such as the Sharpe Ratio is useful as a guide to investment decisions only in a limited set of circumstances. In particular, the measure is useful to investors who are putting all their money into one diversified fund and are able to use leverage or invest in the risk - free asset.

## 4.3 Performance Measures

This study evaluates the performance of the Anidaso Mutual fund using three different methods to characterise or measure performance. These methods are:

- The arithmetic average of the monthly returns for the fund over the sample period;
- The standard deviation of the monthly returns for the fund over the sample period;
- The Sharpe Ratio, computed as average $(R - Rf) / \sigma(R - Rf)$, where R is the return on a given fund, $Rf$ is the monthly rate on three month Bank of Ghana Treasury bills, and $\sigma$ is the standard deviation of excess return, $R - Rf$.

It is important to acknowledge that this study uses the single factor model which assumes that a fund's investment behaviour can be approximated using only a single market index such as the GSE index or DSI index. In this research, the GSE is the preferred market index.

The average monthly return smoothes out the time series variation in fund's return history while the standard deviation of monthly returns highlights the time series return volatility. These two measures are more properly termed characteristics than performance measures since each does not, by itself, provide a risk – averse investor with a measure to evaluate and rank funds.



The Sharpe Ratio measure provides performance evaluation information. The Sharpe Ratio is a scale – free reward-to-total variability ratio. It answers the question of how much additional average return per unit of volatility does this fund provides. The ratio analyses in excess of a benchmark, usually the risk-free rate, and so is not the same ratio of the average return to the standard deviation of return.

### 4.4 Sources of Data Collection

Data collected spans a period of four years, between 2005 and 2008. The Anidaso Mutual fund was started in 2004, and as a result, data became available from the year 2005. The data collected includes yearly net asset values of the Anidaso Mutual fund, from 2005 to 2008. In addition, data on the risk free instrument which in this case was the 91 – day Treasury bill rates for the same period.

Finally, the Ghana Stock Exchange Index is used as a benchmark. This is because the fund invests primarily in high yielding equities listed on the Ghana Stock Exchange, International Stock Exchanges in emerging markets and money market instruments. Therefore the GSE index provides an appropriate proxy for the market.

The primary data sources was from a questionnaire which was designed and distributed among fund members in order get a perceptive view of the performance of the fund.

## 4.5 Data Analysis

The return on the fund is calculated by dividing the closing net asset value by the original asset value. The return is calculated net of management fees and other expenses charged to the fund.

Therefore, a fund's monthly return can be expressed as follows:

$$R_t = \frac{NAV_t - NAV_{t-1}}{NAV_{t-1}}$$

Where Rt is the expected return in month t

NAVt is the closing net asset value of the fund on the last trading day of the month

NAVt-1 is the closing net asset value on the day of the month.

# CHAPTER FIVE

# DATA ANALYSIS AND DISCUSSION OF RESULTS

## 5.0 Introduction

In order to gain understanding of the measure of performance of the Anidaso Mutual Fund, it was important to be able to get information about the fund from primary and secondary data sources. The secondary data sources were reports and clarification given by the managers of the fund. This data obtained from the various literary sources was what was used in analysing the performance of the Anidaso Mutual Fund relative to the benchmark which in this case was the GSE Index.



To further understand the performance of the Anidaso Mutual Fund within the context of the study, it was necessary to conduct a perception analysis of the fund. Following from the performance measurement of the Anidaso Mutual Fund for the period between 2005 and 2008, this section seeks to assess the sampled opinions of sixty of the fund members on the perspective views with respect to understanding their impressions of the fund.

## 5.1 Data Analysis

The following set of tables and graphs below represent a summary of the analysis of the performance of the Anidaso Mutual Fund for the period 2005 to 2008. This analysis was using the GSE Index as a benchmark for assessment.

**Table 5.2: Analysis of the Performance of Anidaso Mutual Fund as compared to GSE Index**

**2005**

| Anidaso Mutual Fund | Returns | T-bill 91-Day | Risk Premium | GSE Index | Returns | T-Bill 91-Day | Risk Premium |
|---|---|---|---|---|---|---|---|
| Mar-05 | -16.07 | 2.6 | -18.67 | Mar-05 | 3.81 | 2.6 | 1.21 |
| Jun-05 | -6.81 | 2.94 | -9.75 | Jun-05 | 2.32 | 2.94 | -0.62 |
| Sep-05 | -3.48 | 3.46 | -6.94 | Sep-05 | 3.72 | 2.46 | 1.26 |
| Dec-05 | 1.46 | 3.93 | -2.47 | Dec-05 | 5.64 | 3.93 | 1.71 |
| Annual Average | | | -9.4575 | Annual Average | | | 0.89 |
| Standard Deviation | | | 6.834195271 | Standard Deviation | | | 1.031471441 |
| Sharpe's Ratio | | | -1.383849835 | Sharpe's Ratio | | | 0.862845024 |

**2006**

| Anidaso Mutual Fund | Returns | T-bill 91-Day | Risk Premium | GSE Index | Returns | T-Bill 91-Day | Risk Premium |
|---|---|---|---|---|---|---|---|
| Mar-06 | 8.9 | 4.49 | 4.41 | Mar-06 | 5.96 | 4.49 | 1.47 |
| Jun-06 | 9.38 | 4.83 | 4.55 | Jun-06 | 3.86 | 4.83 | -0.97 |
| Sep-06 | 12.33 | 5.05 | 7.28 | Sep-06 | 3.97 | 5.05 | -1.08 |
| Dec-06 | 15.4 | 5.03 | 10.37 | Dec-06 | 4.71 | 5.03 | -0.32 |
| Annual Average | | | 6.6525 | Annual Average | | | -0.225 |
| Standard Deviation | | | 2.808491588 | Standard Deviation | | | 1.178713988 |
| Sharpe's Ratio | | | 2.368709249 | Sharpe's Ratio | | | -0.190886001 |

**2007**

| Anidaso Mutual Fund | Returns | T-bill 91-Day | Risk Premium | GSE Index | Returns | T-Bill 91-Day | Risk Premium |
|---|---|---|---|---|---|---|---|
| Mar-07 | 8.82 | 5.12 | 3.7 | Mar-07 | 1.87 | 5.12 | -3.25 |
| Jun-07 | 5.84 | 4.9 | 0.94 | Jun-07 | 4.67 | 4.9 | -0.23 |
| Sep-07 | 4.76 | 4.51 | 0.25 | Sep-07 | 5.15 | 4.51 | 0.64 |
| Dec-07 | 2.35 | 3.59 | -1.24 | Dec-07 | -1.08 | 3.59 | -4.67 |
| Annual Average | | | 0.9125 | Annual Average | | | -1.8775 |
| Standard Deviation | | | 2.069063798 | Standard Deviation | | | 2.498924769 |
| Sharpe's Ratio | | | 0.441020717 | Sharpe's Ratio | | | -0.751323138 |

**2008**

| Anidaso Mutual Fund | Returns | T-bill 91-Day | Risk Premium | GSE Index | Returns | T-Bill 91-Day | Risk Premium |
|---|---|---|---|---|---|---|---|
| Mar-08 | 3.32 | 2.1 | 1.22 | Mar-08 | 2.47 | 2.1 | 0.37 |
| Jun-08 | 3.08 | 1.71 | 1.37 | Jun-08 | 5.54 | 1.71 | 3.83 |
| Sep-08 | 4.14 | 1.63 | 2.51 | Sep-08 | 6.75 | 1.63 | 5.12 |
| Dec-08 | 3.51 | 0.35 | 3.16 | Dec-08 | 4.59 | 0.35 | 4.24 |
| Annual Average | | | 2.065 | Annual Average | | | 3.39 |
| Standard Deviation | | | 0.929892467 | Standard Deviation | | | 2.084018554 |
| Ratio | | | 2.220686879 | Sharpe's Ratio | | | 1.62666498 |

Table 5.2 shows a summary of the performance of the Anidaso Mutual Fund relative to the GSE Index as a benchmark. From the table, you realise that the average return for the Anidaso Mutual Fund is less than the benchmark for the first year (2005). This was because the fund was just starting out and as a result of the initial teething problems, such as having to compete with the existing funds and other investment instruments; its performance as compared to the GSE index was abysmal.

Subsequently, during the following years, that is, 2006 to 2008, the Anidaso Fund performance improved. The average return on the fund for the period increased as against the GSE Index. During this period, the fund was gaining a firmer foothold within its market. During the last year under review, the GSE Index slightly outperformed the Anidaso Mutual Fund. One of the factors that contributed to this was the increased number of companies listing on the stock exchange. This made investment in the market attractive for the period. Nonetheless, the performance of the Anidaso Mutual Fund also held out on its own.

On the average, the Anidaso Mutual fund outperformed the GSE index as per the Sharpe's Ratio. The Sharpe's Ratio for the Fund shows a higher figure than the GSE Index and therefore indicates that, the Anidaso Mutual Fund had a high risk-adjusted return per unit of total risk, therefore performing better than the aggregate portfolio (GSE Index). The higher Sharpe's Ratio shows that on the whole, the fund is preferable to the risk-averse investor when considering an investment in only one risky portfolio such as the Anidaso Mutual Fund.

The relationship between the performance of the Anidaso Mutual Fund and the GSE Index for the period is better shown as per the Figures 1 to 3. These graphs show the performance of the Anidaso Mutual Fund as against the benchmark, GSE Index. This assessment of performance was done against the following measures of performance, the Average Annual Performance; the Standard Deviation and the Sharpe's Ratio.

**Fig 5.1: Performance of Anidaso and GSE using the Average Annual Returns**

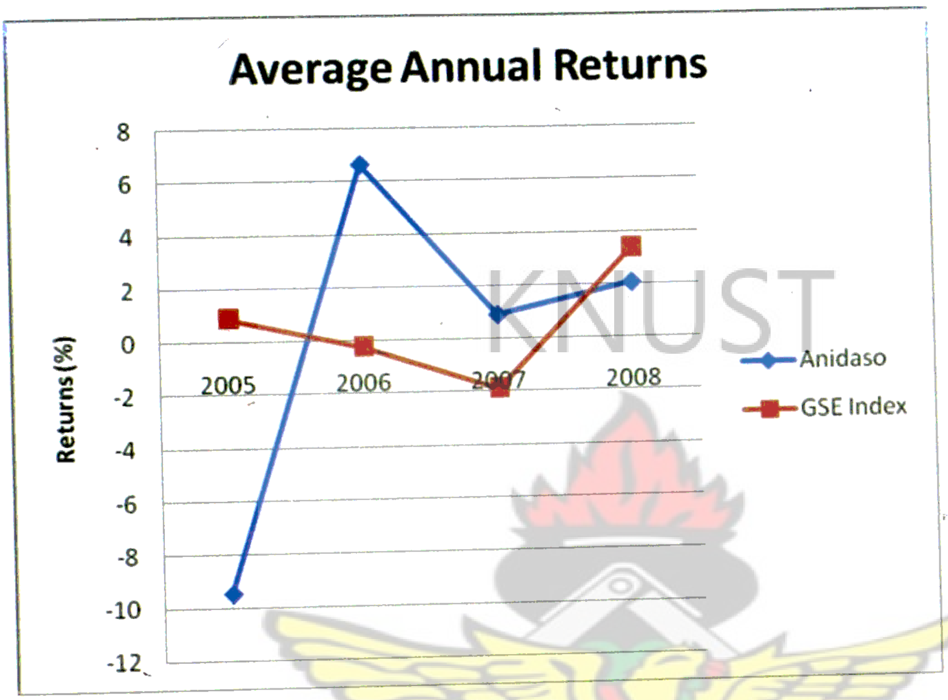
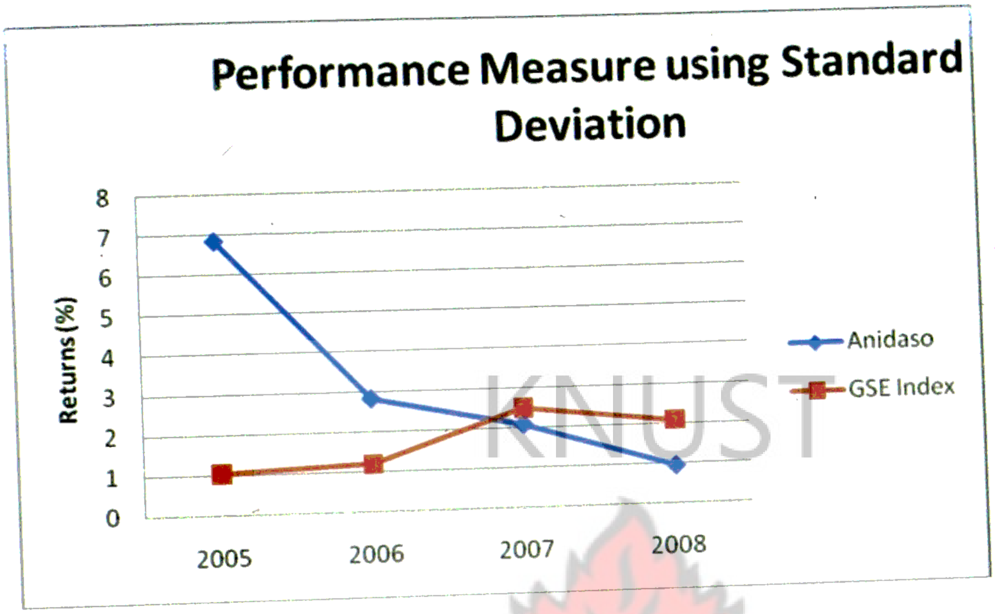



Figure 5.1 above shows that, the performance of the Anidaso Mutual Fund started with a negative return as compared to the GSE Index which had a positive return. Over the period 2006 to 2008, the fund grew and begun to outperform the GSE index. From the graph you realise that during the year 2008, the average annual return on the GSE Index rose slightly above the Anidaso Mutual Fund. This was mainly due to the fact that, the stock market begun to show a higher level of attraction due to an increased number of companies listing on the stock exchange.

Table 5.2 shows the performance of the Anidaso Mutual Fund as against the GSE index using the Standard Deviation as a means of measuring performance.

**Fig 5.2: Performance of Anidaso Mutual Fund and GSE using the Standard Deviation**




As shown from the graph, you realise that when the fund started out initially, it had a high standard deviation as compared to the GSE Index. This was due to the high level of instability when the fund initially commenced. Given the high level of competition it faced. The GSE Index had a lower Standard Deviation and showed more stability. From 2006 to 2008, the Anidaso Mutual Fund begun to show more stability in its performance, and as at 2008, it posted a lower Standard Deviation than the GSE Index. This was mainly due to the high instability on the world market. The performance of the stock market has been affected by the global recession, and as a result the Anidaso Fund shows more stability.

Table 5.3 shows the performance of the Anidaso Mutual Fund as against the GSE index using the Sharpe's Ratio as a standard or measure. The Sharpe's Ratio is used to assess the level of risk ascribed to the investment instrument. Therefore, the higher the ratio, the more the risk. This translates to higher returns. It is clearly seen from the table 3 that initially the gap between the Anidaso Mutual Fund and the GSE Index was very wide. In 2006 the Anidaso Fund posted a higher risk ratio as compared to the GSE Index. In 2008 though, the GSE begun to rise. This was because, even though the mutual fund posted a marginally higher risk return than the GSE Index, the high level of volatility and risk in the current world market raises the risk ratio of the index. But generally, the Anidaso Mutual Fund shows a higher risk performance.

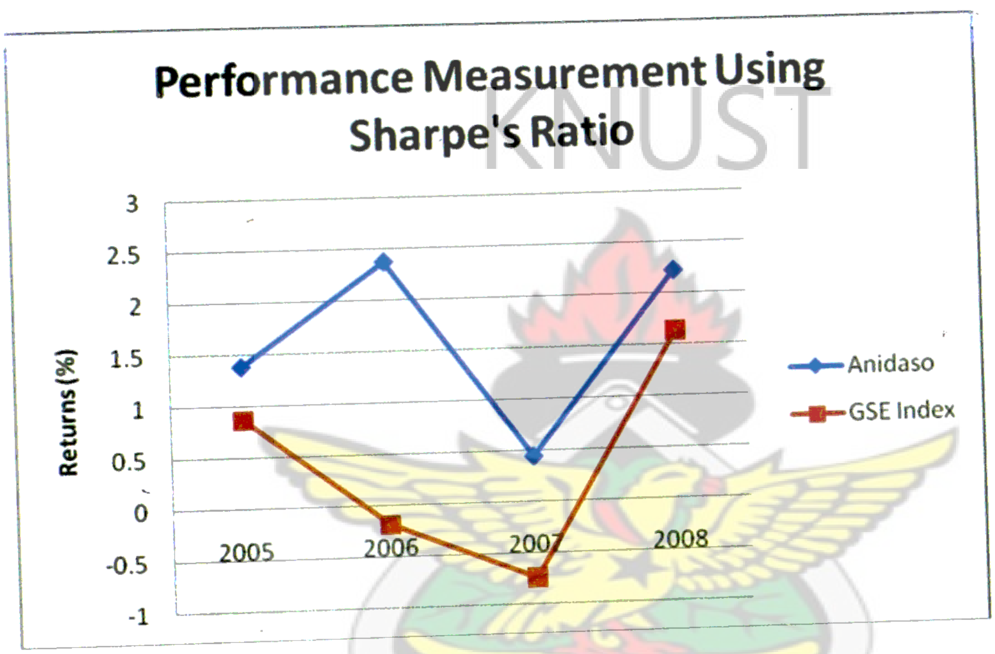



**Fig 3: Performance of Anidaso Mutual Fund using the Sharpe's Ratio**



## 5.2 Perception Analysis on the Anidaso Mutual Fund

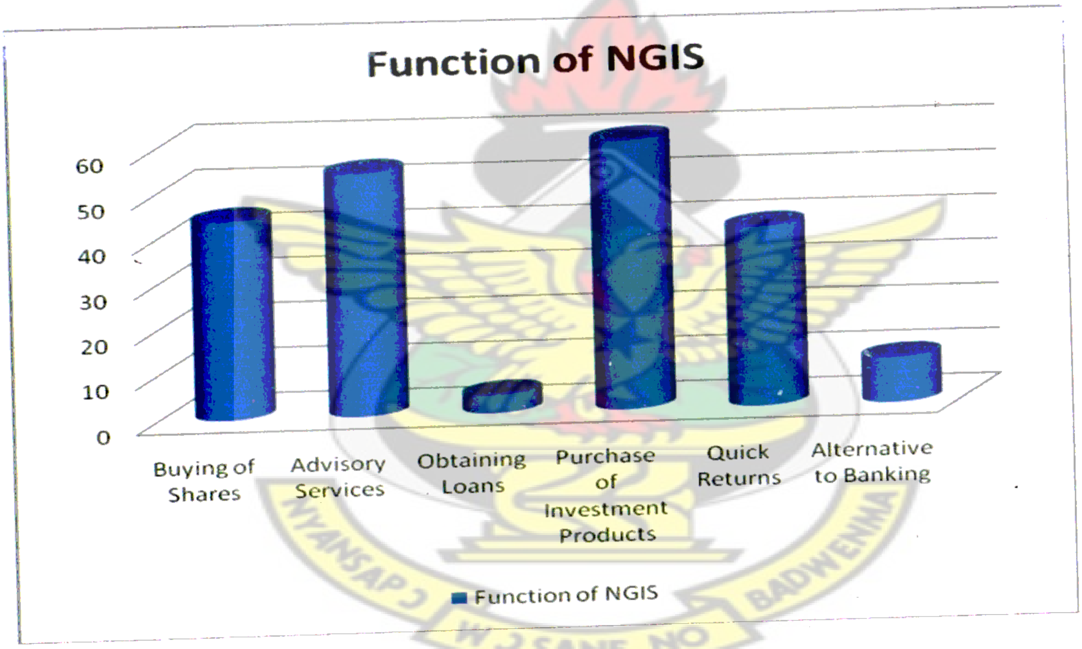
The perception analysis seeks to acquire insight into the clients understanding of Mutual Funds within the context of its various functions. Some of the issues around which the survey was conducted were to gain a better understanding of the client's perception with regards to the functions of mutual funds. It also sought to gain insight into the client's overall level of satisfaction with the overall service given by the New Generation Investment Services Limited. It also sought to get an indication of the client's perception relating to the performance of the various investment instruments offered by the company, and also assess customer perception relating to the performance of the staff of the company.

### 5.2.1 Function of New Generation Investment Service

Sixty respondents were interviewed on what they perceived as the major role or functions of New Generation Investment Service Limited. The following responses were received as per the graph below:



**Figure 5.4: Respondents perception on Functions of NGIS**

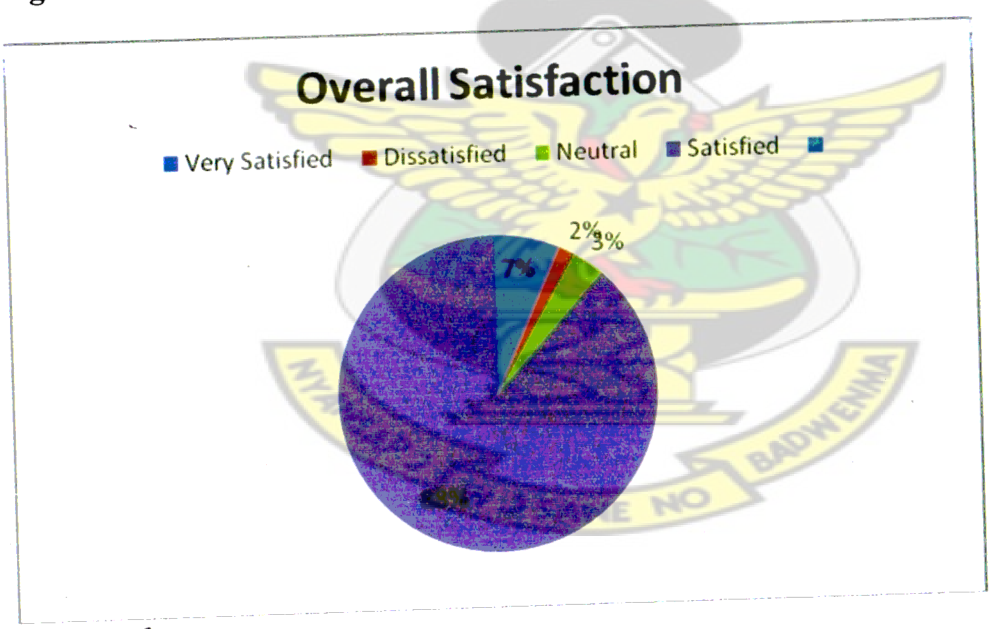



All the respondents interviewed understand that the New Generations Investment Services is a place where they can purchase investment products. 54 of the respondents also saw the NGIS as a place where they could get business advisory services to assist them in their businesses and investments. 44 of the respondents said that NGIS was a place where they could invest in the purchase of shares. 40 of the respondents also thought that NGIS was a place where they could get quick returns on their investments given the fact that the banks are unable to give high returns on investments. 10 of the respondents saw NGIS as an alternative to the formal banking sector. 4 of the respondents considered NGIS a place where they can take loans to supplement their business capital.

### 5.2.2 Investment Objectives and Overall Satisfaction of Performance of Investments

The figures below refer to the various opinions held by the respondents on their level of satisfaction with the performance of their investments. It also seeks to gain a sample overview of the investment objectives of the respondents.

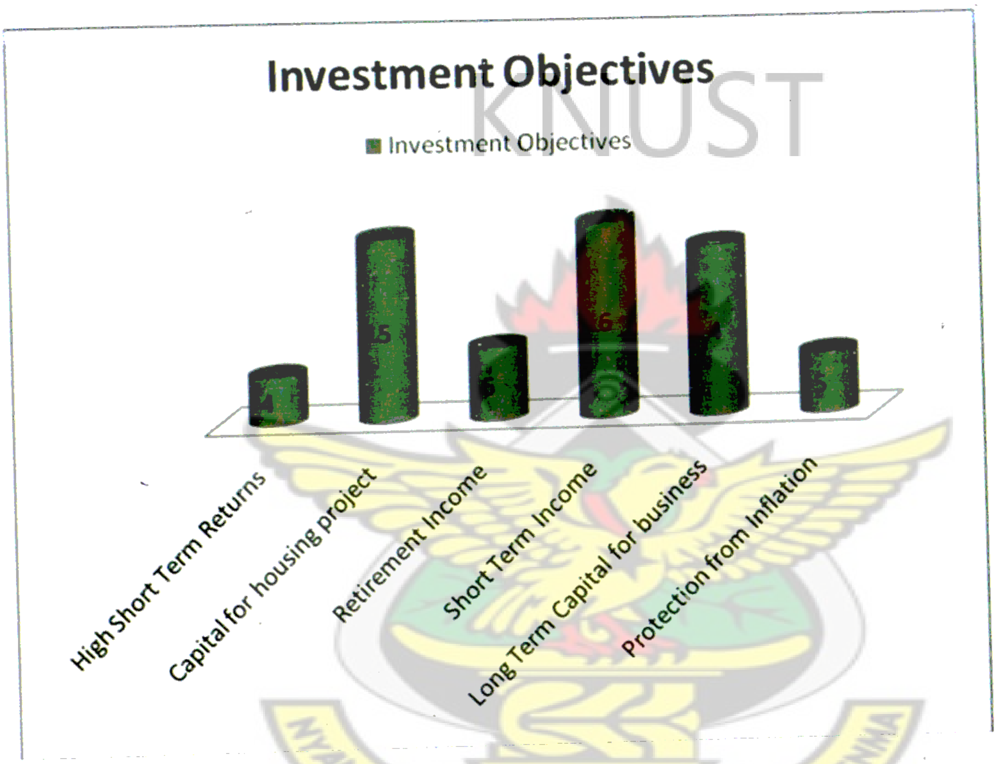
**Fig 5.5: Respondents perception on Overall Satisfacton of Investments**




Overall, most of the respondents (88%) were satisfied with they services they received from NGIS. 7% of the respondents were very satisfied with the services they receive from the NGIS. On the whole, 95% of the respondents said they were satisfied with the services offered by NGIS.

The data below shows the objectives of customers with regards to the various reasons why they would like to undertake one investment or the other.

**Fig 5.6: Investment Objectices of Respondents**

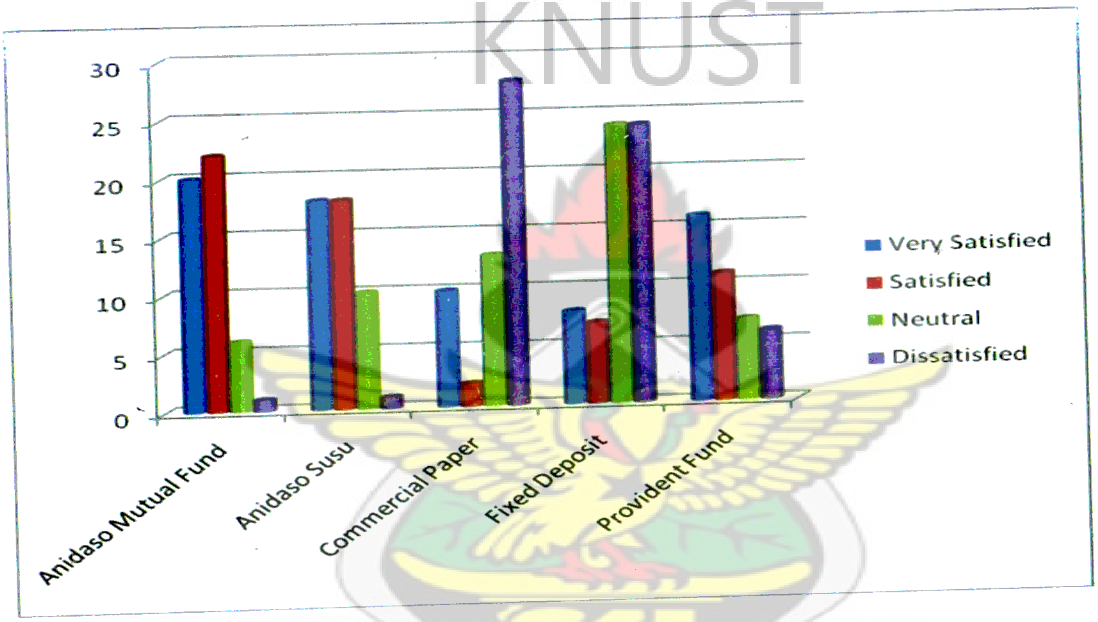



With regards to the investment objectives, 16 of the respondents representing 26.7%, have invested in order raise short term income for themselves. 15 of the respondents (25%) have invested in order to raise capital for their housing projects. 14 of the respondents (23.3%) have invested in order to raise long term capital for business. 6 of the respondents (10%) have also invested in order to secure finances for their retirement.

### 5.2.3 Performance of Individual Investment Instruments

The graph below shows the performance of the various investment instruments offered by NGIS in relation to customer perception. The Anidaso Mutual Fund and the Fixed deposit were seen to be the most attractive instruments. This was because customers were able to raise the short term capital they wanted for their businesses and other interests much easier. The customers also had a great deal of interest in the Anidaso Susu scheme. This according to the respondents is seen as a viable alternative to saving with the formal banks.

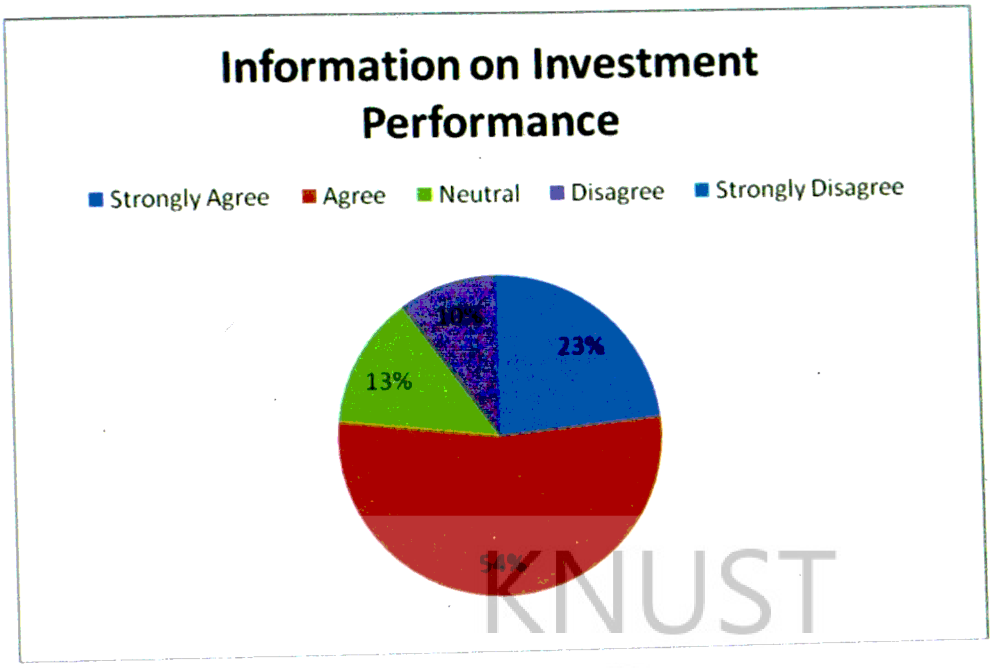
**Fig 5.7: Performance of Individual Investment Instruments**




### 5.2.4 Customer Perception of New Generation Investment Services Limited

Below is data collected from the respondents on their perception of the business of New Generation Investment Services Limited.

**Fig 5.8: Respondents perception on availability of information on their Investments**



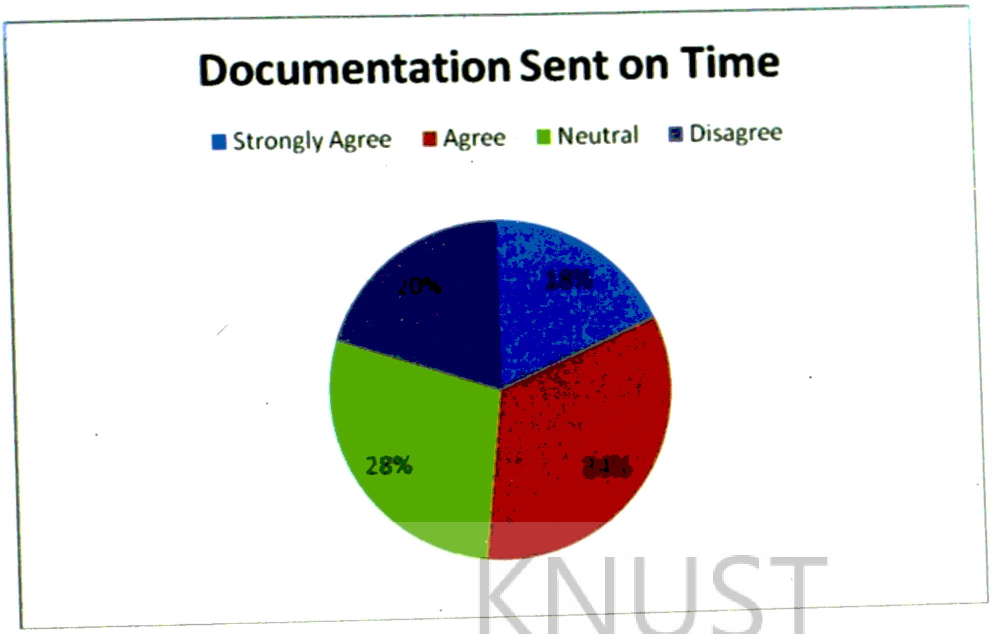



54% of the respondents agree that information relating to the product offers of NGIS are easily and readily available. On the other hand, 23% of the respondent thought that information on the various product offerings of the NGIS was not readily available.

### 5.2.5 Administrative Performance of the Fund

Below are a series of diagrams which give an idea of how customer's perceive the general administrative competencies of the staff and management of the NGIS in respect of the mangagement of its various product offerings. This is seen in terms of the ease with which they process their documentation, how easy it is to collect cheques after processing for payment is done, the company staff and their ability to clearly explain the various functions and features of the investment products offered and the general management of the funds in terms of the returns that come back to the customer.

**Fig 5.9 Respondents perception regarding speed of documentation**

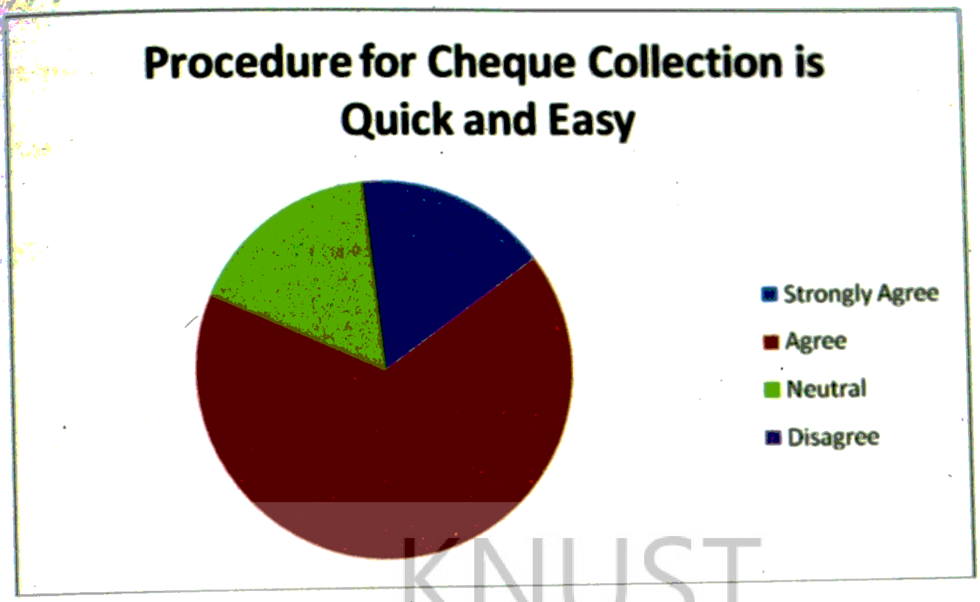





Most of the respondents agree that the documentation is processed and sent on time. Those who disagree with this assertion are basically those who have in one way or the other encountered some difficulty in the processing of their documents. But this in no way had a negative impact on their investments.

The graph below also assesses the administrative competencies of the NGIS in relation to the procedure for cheque collection. Most of the respondents agree that the procedure quite easy. A few of the respondents disagreed with this however. The explanation given was that, the accounts of the NGIS are held in formal banking institutions. The delays were therefore not, as a result of NGIS processing, but delays from the banks.

Fig 5.10 **Respondents perception on Cheque Collection**






Company staff according to the respondents take their time to explain the various risks with regards to the investment products. 21% of the respondents strongly agree with this. 9% however disagreed with this statement.

**Fig 5.11 Respondents perception on explanation of Risk associated with investments**

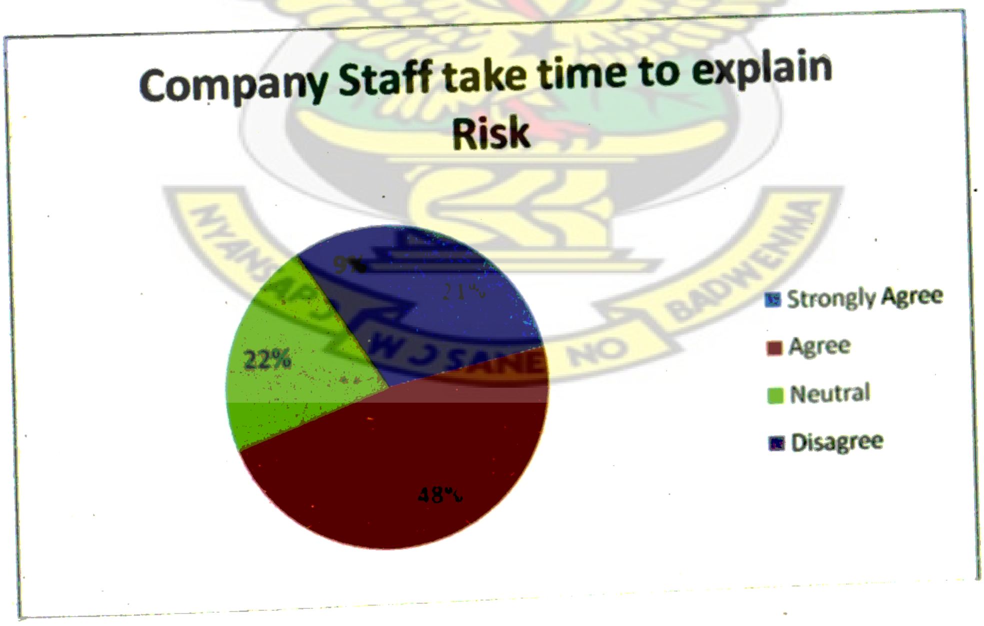
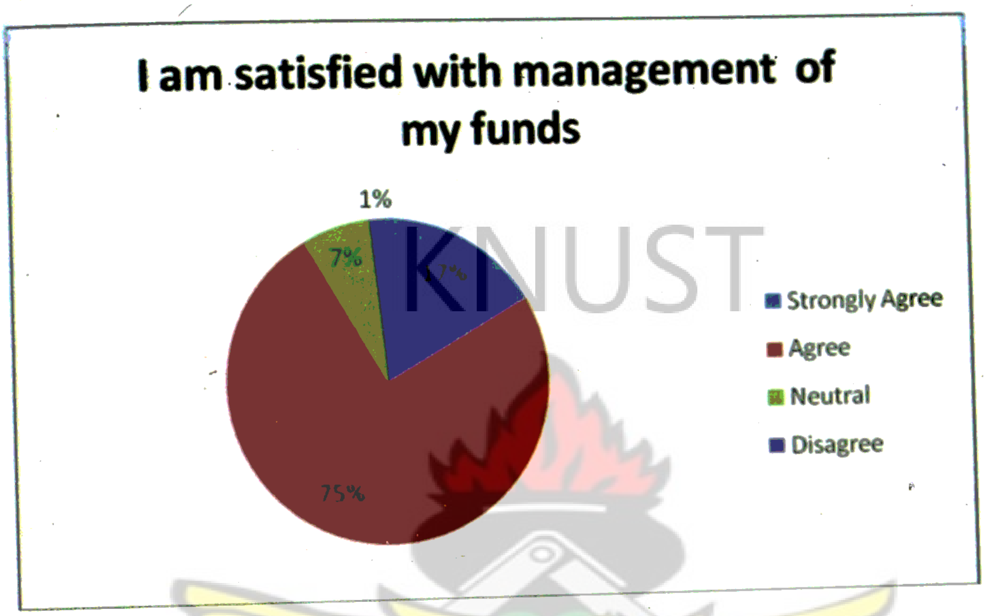


Figure 5.12 shows the level of customer satisfaction with the management of their funds. 75% of the respondents are satisfied with the management of their funds. 17% of the respondents are very satisfied with the management of their funds. Only 1% of the respondents were not satisfied with the management of their funds.

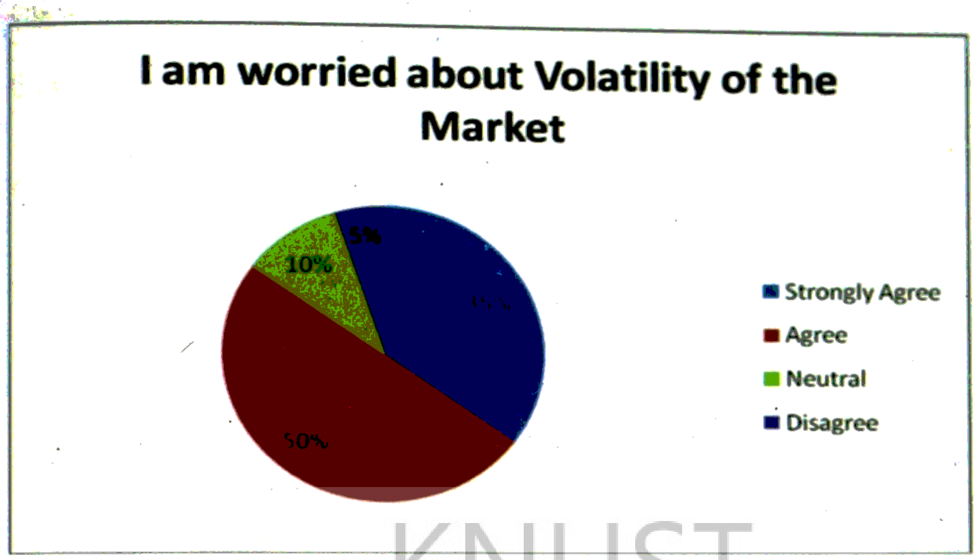
**Fig 5.12 Respondents level of satisfaction of the management of their funds**




### 5.2.6 Respondents perception relating to Market Volatility

Given the current state of the world economy and the volatility of the market, 50% of the respondents agreed that they are worried about the volatility of the market. 35% of the respondents strongly agree with the fact that the current market is quite volatile. Most of this is as a result of the world recession and the instability of the money market.

**Fig 5.13** **Respondents perception on Market Volatilite**

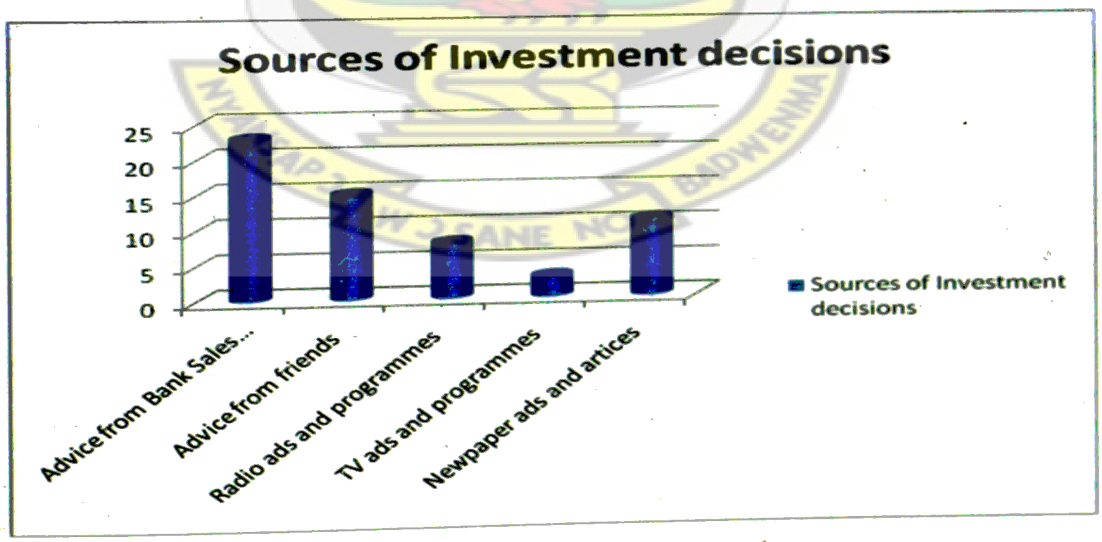





### 5.2.7 Sources of Investment Decisions

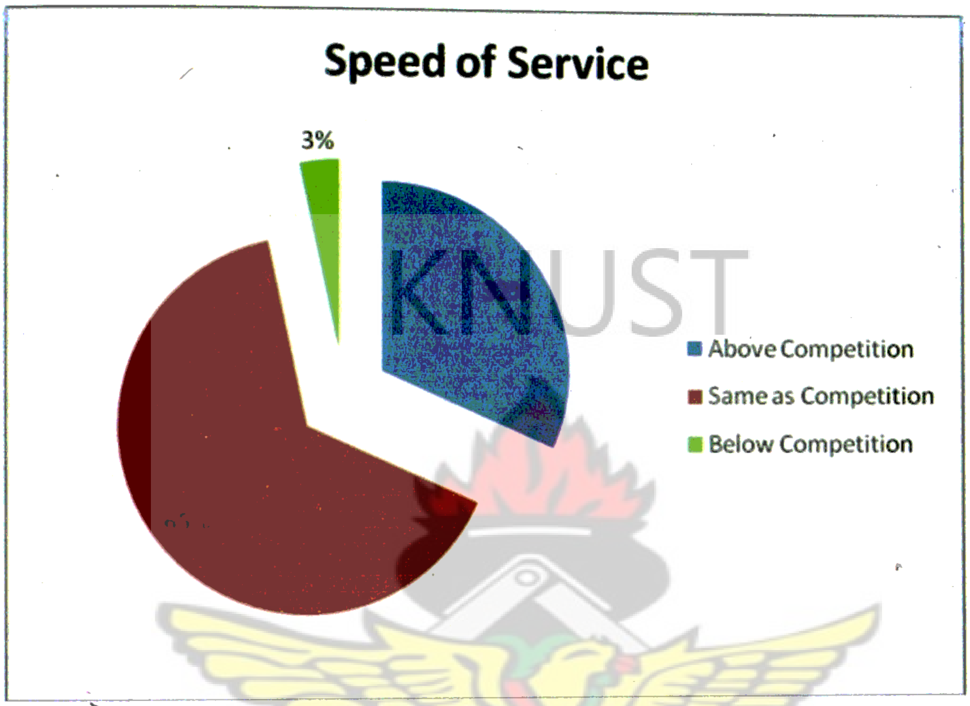
Figure 5.14 below shows that most of the respondents got information about investments from interactions with bank sales persons.

**Fig 5.14** **Respondents perception of sources of Investment decisions**



Another important souce of investment information is from friends. Most people who have enjoyed some favourable returns from investments tend to spread the word to other friends. Some information is also obtainded from Newspaper adverts and articles.

**Fig 15:Respondents perception on Speed of Service of NGIS**




From Figure 5.15, it shows that most of the respondents are satisfied with the speed of service of New Generaton Investment Services represented by 65% of the respondents. 32% of the respondents thought the services rendered by NGIS was just the same as competition. 3% of the respondents thought that the NGIS services were below competition. This could be as a result of some unpleasant experiences.

**Fig 5.16 Respondents perception on Attention given by Company Staff**

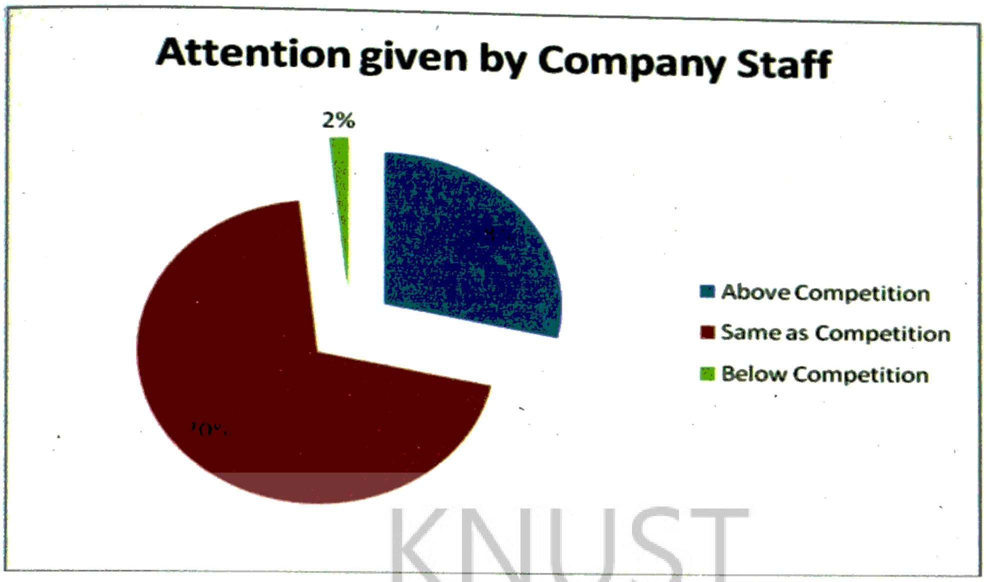
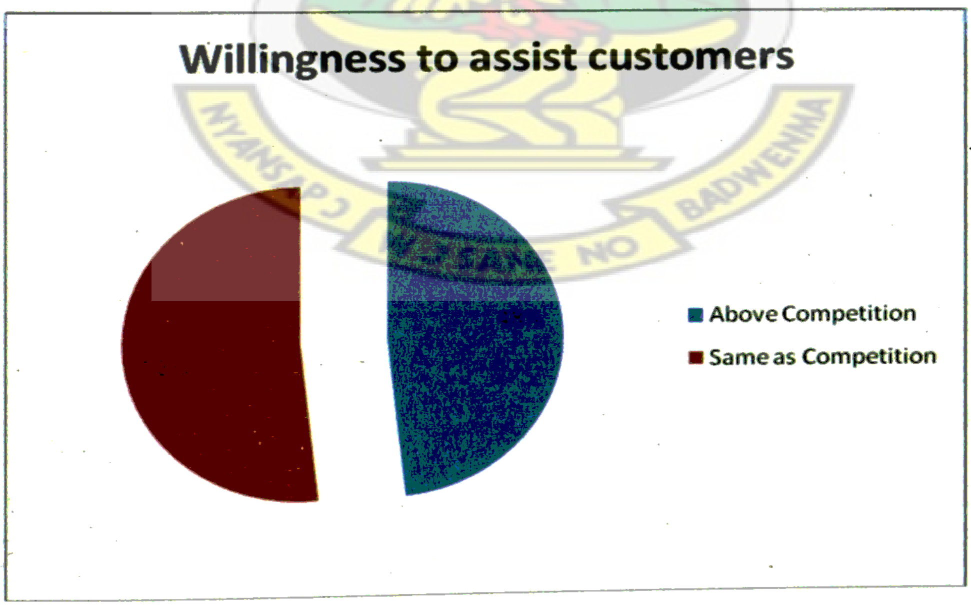



Figure 5.16 shows that most of the respondents are pleased with the level of attention given by the staff of New Generation Investment Services Limited. This is represented by 70% of respondents acknowledging that the company's level of attention given to customers is above competition.

**Fig 5.17 NGIS Staff willingness to assist customers**



### 5.2.8 Speed of Redemption and Quality of Management Expertise

Generally, the respondents were quite satisfied with the quality of management expertise of the fund managers. 53% of the respondents were of the opinion that the speed of redemption was the same as competition. This is probably because the money management by the funds is held by the banks. Therefore the ease of access to funds at the banks is not entirely within the control of the fund managers.

**Fig 5.18 Respondents perception on Speed of Redemption**

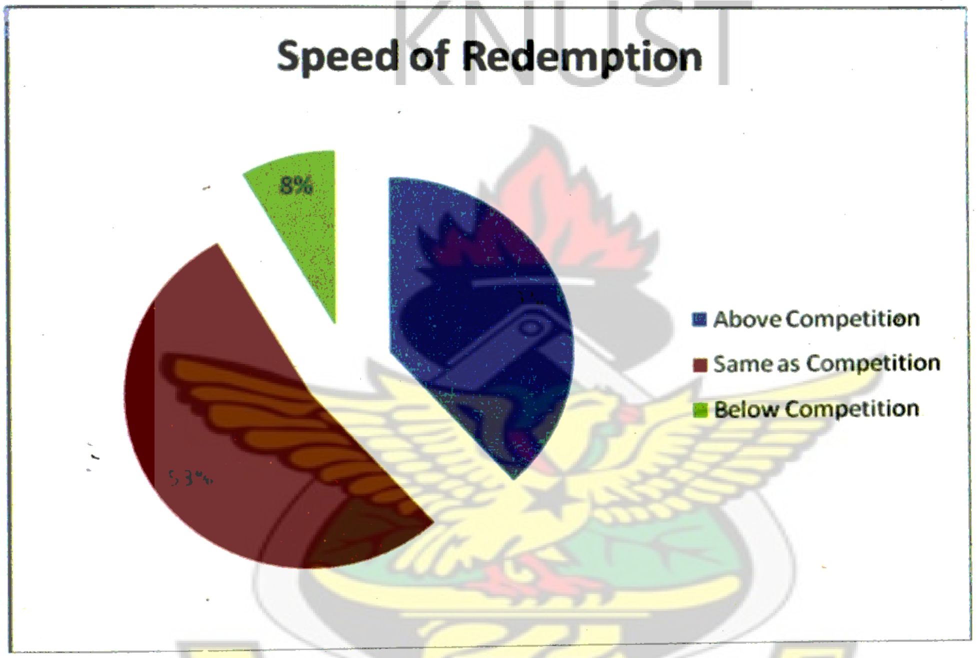
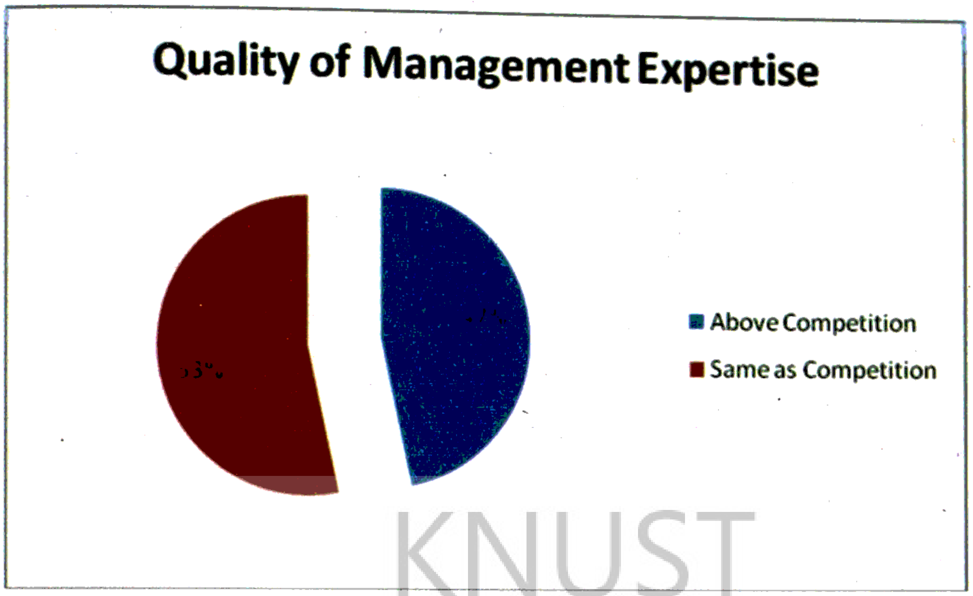



Figure 5.19 shows that generally, the respondents are satisfied with the management expertise of the fund managers. They attest to the fact that they are able to get the returns that they expect to get on their investments. The fund managers ability to bring returns to their investments is a great measure of the level of satisfaction for the respondents.

**Fig 5.19 Respondents perception on Quality of Management Expertise**





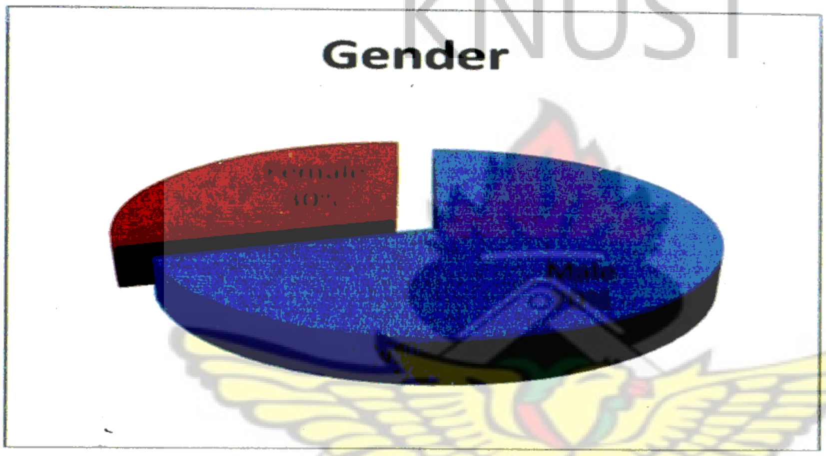

Figures 5.18 and 5.19 show the respondents perception with regards to the level of speed in conducting their business as well as their level of management expertise regarding their business. Most of the respondents seem to think that the level of aptitude of the staff and management of New Generation Investment Services Limited is on the average above competition.

### 5.2.9 Profile of Respondents

Below are graphs which give a description of the profile of the respondents. In all a total of 60 respondents were interviewed. 42 of the respondents were male whiles 18 of the respondents were female. This comes up to 70% representing the males and 30% representing the females.

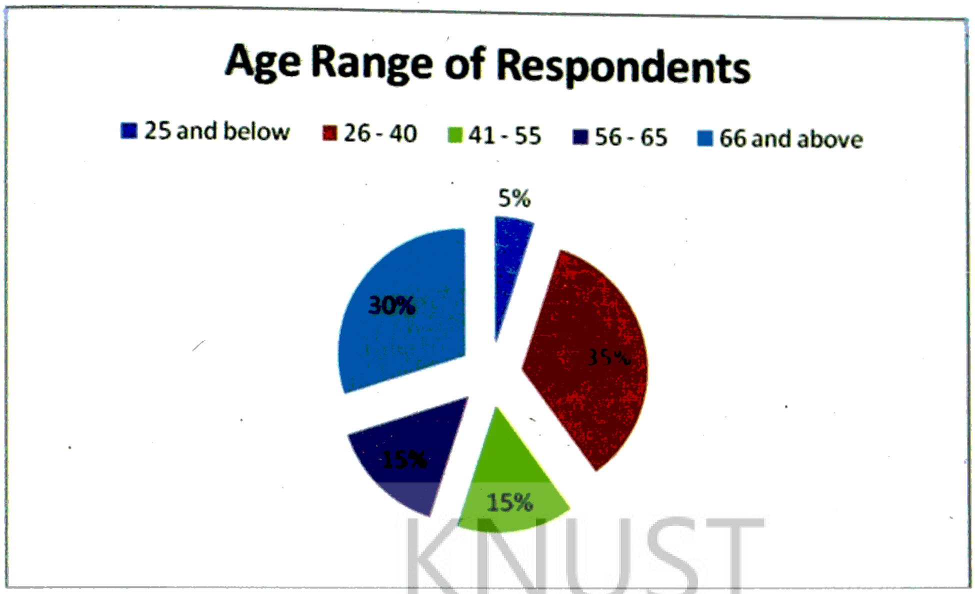
**Fig 5.20 Gender of Respondents**






It is interesting to note that 30% of the respondents intereviewd were above the age of 66. This showed that those within this age range were looking to raise capital for their retirements. 35% of the respondents who were also within the ages of 25 and 40 years. This shows that most of these within the age range are into business or are looking to raise capital from investments for future endeavors.

**Fig 5.21 Age Range of Respondents**




Most of the respondents have had some form of tertiary education. It shows that most of those involved with the investment are people who have had some formal education.

**Fig 5.22 Level of Education of Respondents**

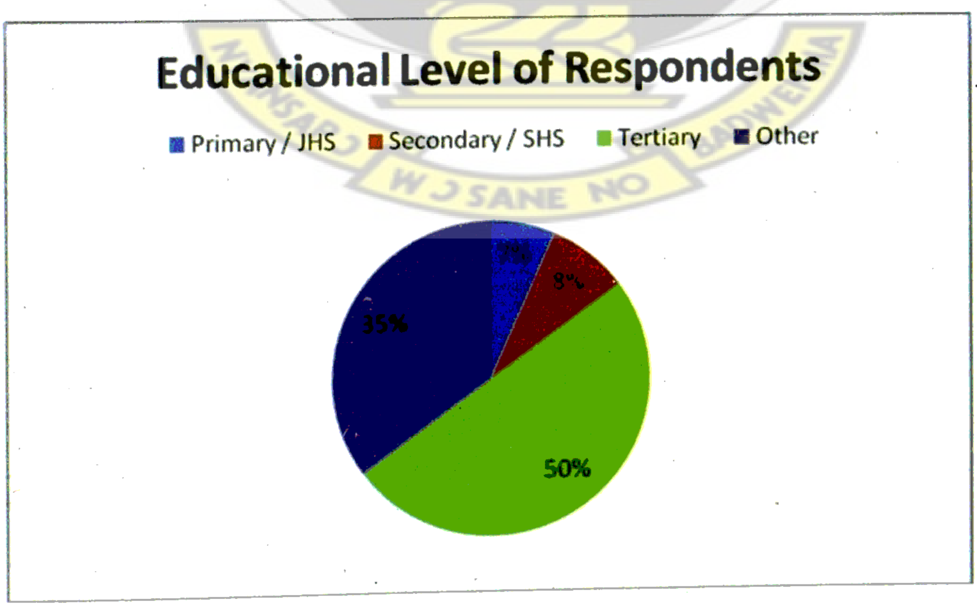
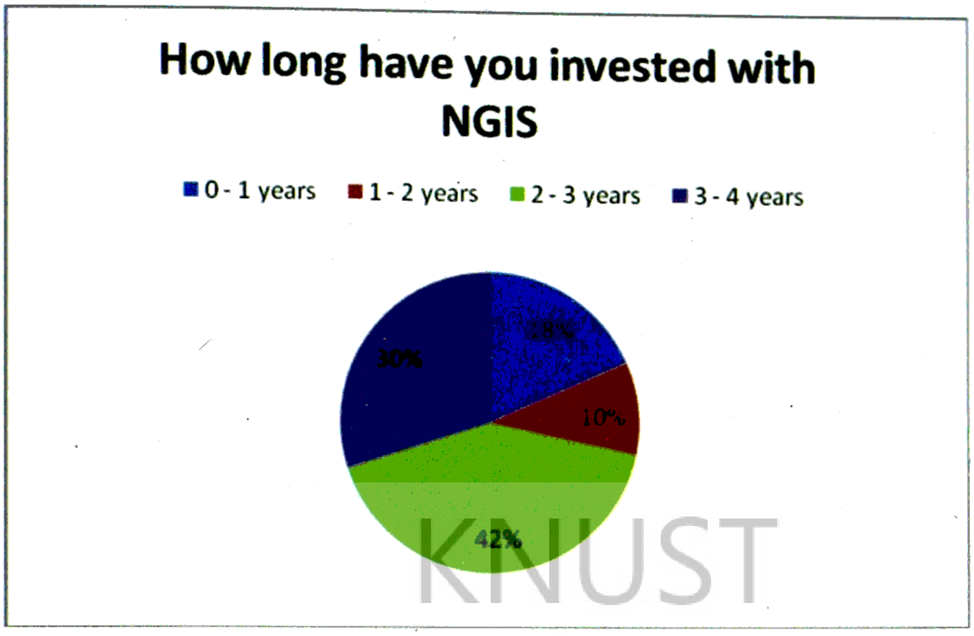


Fig 5.23 **How long have you invested with New Generation Investment Services**




Most of the respondents interviewed have invested with the New Generation Investment Services for between 2 and 3 years. This is represented by 42% as shown in Figure 5.23.

# CHAPTER SIX

# SUMMARY OF FINDINGS, RECOMMENDATONS AND CONCLUSION

## 6.0 Introduction

This chapter represents a summary of the findings from the data collection and analysis. It seeks to give a broad general overview of the data collected and give an understanding of the findings and the conclusion.

## 6.1 Summary of Findings on Perception Survey



Below is a summary of the findings from the perception interview from the respondents:

1) On the whole, Anidaso Mutual fund holders are generally satisfied with their investments. Investors are generally satisfied with the returns on their investments. The Fund provides a comparably stable avenue for investments which yield high returns.

2) New Generation Investment Services Limited has been able to give an acceptable level of education to their customers on the various types of investment products and their features

3) The Anidaso Mutual fund is the main product of the New Generation Investment Services Limited.

4) New Generation Investment Services Limited makes the effort to inform its customers on the performance of their investments and the prevailing market trends.

5) The current global recession has led to a volatile market environment, but there is a general feeling of satisfaction among the investors with New Generation Investment

Services Limited concerning the ability of the company to efficiently manage their investments.

6) There is greater information availability within the market. Customers have access to information from numerous sources.

7) Clients are given adequate education on the risks associated with the investments. They are therefore able to make informed decisions.

8) Most of the clientele on the average have some form of tertiary education and are in professions that cut across all facets of the society.



From the study, one can arguably say that mutual funds are desirable because of their diversification effect. Portfolio formation and management, however, is a time consuming activity and requires special skills. In addition, portfolio formation is not feasible for small, individual investors because most of the benefits of diversification are lost due to the transaction costs incurred during portfolio formation and revision. The costs are lower if the transactions are done on a large scale.

The process of optimal portfolio selection by the fund managers is revealed. However, we can guess that they combine the securities to form efficient portfolios. Investors get to enjoy the benefits of diversification without having to be directly involved in the process of selecting and maintaining a portfolio of a large number of securities. The main advantage of mutual funds, however, comes from the reduced transaction costs because of the buying power of the funds.

## 6.2 Finding of Data Analysis (Secondary Data)

From the comparative analysis on data from the Anidaso Mutual Fund and the GSE Index, it realised that the Fund generally performs better than the GSE Index. Using the average annual returns as shown in Figure 1, you realise that, even though the Anidaso Mutual Fund initially started with negative returns, it has steadily overtaken the GSE Index.

The measurement of performance using the Standard Deviation as shown in Figure 2 clearly shows that, initially the Anidaso Mutual Fund showed a high level of volatility. This was as a result of the fact that, it was a new entrant into the market and had to compete with the existing investment products. But from 2006 to 2008, the fund has shown greater stability in its performance. The GSE Index standard deviation rose above the Anidaso Mutual Fund because; the current economic state of the world market is quite unstable. As a result it has affected the general level of volatility.

The Sharpe's Ratio as a measure of risk performance, shows that the Anidaso Mutual Fund posts a generally risk return than the GSE Index. The higher risk measure tends to translate into higher returns for investment instruments. In 2008 for instance, the Anidaso Mutual Fund is marginally higher than the GSE index. This is because, even though the world market is unstable, it has prospects which promise high returns.

The Anidaso Mutual Fund is an open ended fund thus its shares are issued upon demand with no limit on the number of shares that can be issued. It is a no-load fund because the fund currently does not charge any commissions. The Anidaso Mutual Fund is not directly traded on the stock market. The value of the fund is given by its Net Asset Value (NAV). The Net Asset Value, as the name implies, refers to the net value of the assets of the mutual fund on a per share basis. The majority of studies conclude that actively managed portfolios, on average, under-perform market indices (Otten, & Bams, 2003).

The average active fund underperforms index funds on a risk-adjusted basis. Skilled management, if it exists at all, is difficult to detect. Based on the preceding comments, one cannot reject the null hypothesis that the best performance is due to chance.

Jensen (1968) and Sharpe (1966) argue that mutual funds under-perform the market by the amount of expenses they charge the investor. However, like the Ippolito article (1989) this study shows a generally positive performance of the Anidaso Mutual Fund as compared to the GSE index as a benchmark.

These facts may by themselves lead investors to shun actively managed funds. However, my analysis shows that such conclusions may be premature. Given the proposed methods of performance evaluation employed for the period (2005 – 2008) the fund outperforms the benchmark on the average. Since the performance measure is based on historical data, the evaluation represents better and worse past performers, which does not ensure future out performance. Yet, the measure can give a good indication about the fund's past ability to choose the "right" style mixture and the "right" asset picks.

## 6.3 Recommendations and Conclusions

The approach I have decided to take is based on the idea that investors are ultimately concerned more about the risk and return of their portfolios over the planning horizon, than with the actual composition of their portfolios. Many standard recommendations to investors, for instance, the 60 – 40 portfolio (Nitzan Melamed and Krull, 2002), must be understood as recommendations about risk and return if they have any meaning at all.

Investors care in the first instance not so much whether their funds contain more or less of, say, large – cap stocks, but whether the managers of those funds have compensated well for the risks they take, in a sustained fashion. Investors who do not focus on risk and on the degree to which they are compensated for bearing the risk are less likely to meet their financial goals.

Current trends in the Ghana Stock Exchange call for the diversification of investments to cover market in other parts of the world. This is because even though we have an increase of companies trading in the stock market, it is essential for the fund managers of Anidaso Mutual Fund, (New Generation Investment Services) to invest in other stocks in other countries. Having investments in other countries will ensure that the funds will have the benefit of a full year round delivery of attractive returns to the investor. A word of caution to fund managers though, they must be able to assign to the various stocks they invest in for their portfolio. Importantly, now that they are essentially in other markets other than the Ghana Stock Exchange, a poor weighing on the stock in one market has the tendency to destabilise the portfolio's performance.

It is also essential that fund managers discharge their duties with the highest level of expertise. This is because, there is currently a lot of competition within the mutual fund market, and to be able to get the clients, the fund manager must be able to display a high sense of professionalism and management expertise to be able to get the highest returns on their investments. Currently, clients are looking to get the highest returns within the shortest possible time; as a result, there may be the interest to invest in the government bonds such as the Treasury bills which currently command a high interest rate.

For fund managers to be able to get the most returns on their investments there is the need to diversify their investment portfolios. This will ensure that at any point in time, the investments are able to give high returns which in turn will lead to increased customer satisfaction with the investments.

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**Appendix A**

**Questionnaire**

1) Gender: Male ☐ Female

2) Age range

   a) 25 years and below ☐

   b) 26 years to 40 years ☐

   c) 41 years to 55 years ☐

   d) 56 years to 65 years ☐

   e) 66 years and above ☐



3) Educational level

   a) Primary / JHS ☐

   b) Secondary / SHS ☐

   c) Tertiary ☐

   d) Other........................................................................................................................................



4) How long have you had your investment with New Generation Investment Services Limited (Anidaso Mutual Fund)

5) Generally, how do you perceive New Generation Investment Services? (Tick as many as apply)

   a) A place for buying shares ☐

   b) A place to seek general investment advisory services ☐

   c) A place for obtaining loans ☐

d) A place for buying various types of investment products

e) A place for making quick returns on money

f) An alternative to banking

6) Overall, how satisfied are you with the performance of your investment with the New Generation Investment Services

a) Very Satisfied

b) Satisfied

c) Neither satisfied or dissatisfied (indifferent)

d) Dissatisfied

e) Very dissatisfied

7) Which of the following best describes your investment objectives?

a) To provide short – term income

b) To build long – term capital for business

c) To save for retirement income

d) To protect my money from inflation

e) To build capital for housing project

f) To provide high short – term returns

8) Please indicate the extent of your satisfaction with the performance of the following: (Tick the categories which apply)

| | Very Satisfied | Satisfied | Neutral | Dissatisfied | Very Dissatisfied |
|---|---|---|---|---|---|
| Anidaso Mutual Fund | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Epa¢k | | | | | |
| Treasury bills | | | | | |
| Shares | | | | | |
| Fixed Deposits (FDR) | | | | | |

9) Please rate the extent to which you rely on the following sources of information to make investment decisions:

| | Very Important | Important | Neutral | Not Important |
|---|---|---|---|---|
| a) Advice from friends | ☐ | ☐ | ☐ | ☐ |
| b) Newspapers & artices | ☐ | ☐ | ☐ | ☐ |
| c) Radio ads & programmes | ☐ | ☐ | ☐ | ☐ |
| d) TV ads and Programmes | ☐ | ☐ | ☐ | ☐ |
| e) Advice from bank salespersons | ☐ | ☐ | ☐ | ☐ |



10) Compared to other investment banks / institutions, how do you rate the New Generation's Anidado Mutual Fund on the following:

| | Above Average Competition | Same as Competition | Below |
|---|---|---|---|
| a) Speed of Service | ☐ | ☐ | ☐ |
| b) Attention given by staff | ☐ | ☐ | ☐ |
| c) Willingness of staff to Assist customers | ☐ | ☐ | ☐ |
| d) Speed of redemption of funds | ☐ | ☐ | ☐ |
| e) Quality of Management expertise | ☐ | ☐ | ☐ |

11) Please indicate your extent of agreement or disagreement with the following statements.

a) The company makes effort to inform us about the performance of our investments

| Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

b) Documentation / contract notes are usually sent to customers without much delay

| Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

c) The procedure of cheque collection is very easy and quick

| Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |



d) Company staff take time to explain the risk associated with the Anidaso Mutual Fund

| Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

e) I am satisfied with the management of my funds / investment

| Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

f) I am worried about the volatile nature of the market

| Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |

g) The company makes the effort to educate us in times of market down – turns

| Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ |