Performance of Mutual Funds Management of Bangladesh-Evidence from Close End Mutual Funds in Dhaka Stock Exchange Limited (DSE)

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Abstract: The mutual fund market in Bangladesh is still small though the concept of the mutual fund was introduced in the year of 1980.Mutual fund sector is lucrative at all over the world where it has much impact on GDP and total market capitalization but Bangladesh is lagging behind in this sector and unable to make proper use of this sector. Open end mutual fund performance is quite good rather than close end mutual fund in Bangladesh. Weekly NAV data of 10 close end mutual fund has been taken in this paper. Not all the funds are doing bad, still few funds' performance are extraordinary. Management's inefficiency, lack of trust of investors and poor governance by regulator are the main reasons behind the poor performance of mutual fund sector in Bangladesh. Moreover, the recent unusual upsurge in the stock markets, the redemption of the matured funds, unstable margin rule, unskilled investors, asymmetric information, declaration of re-investment units as dividend have made the mutual fund industry much tougher than ever before. To bring back the confidence of the investors in the mutual fund sector this paper is bringing some recommendations to reduce the stressors up to a certain level.

Keywords: Mutual fund performance, Setback of mutual fund sector, Poor performance, Close end mutual fund, Bangladesh market etc. JEL classification: G31, M41

1. INTRODUCTION

1.1 Preamble of the study

Mutual fund is an institution which collects funds from the public and invests into different securities like stock, bond, fixed deposit, commodities. Mutual funds are regulated on the continuous basis. It is an impeccable investment tool for the general investors who do not possess the proper capital market knowledge or having expertise of making investments in capital market. Mutual funds are managed by the professional expert people.

fund sector in Bangladesh is 3002 which means close end mutual fund sector is highly concentrated in Bangladesh where fifty percent of the close end fund is maintained by RACE Asset Management Company and 40% close end funds are

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maintained by LR Global Asset Management Company and Investment Corporation of Bangladesh. Mutual fund's effect on total market capitalization is 1.82%. In Bangladesh, Mutual fund market turnover is lower than any other sectors. According to the statistics, all the funds were trading at 200-300% premium but in 2017 most of the funds are trading at average 35% discount.

In this research paper, the performance of the close end mutual funds in Dhaka Stock Exchange is evaluated and finds out whether close end mutual funds can outperform the market by offering higher return than the market.

1.2 Current Market Situation of the close end Mutual Fund sector in Bangladesh:
The present statistics of the close-end mutual fund are given in the following table:

	Asset Managers' Statistics						
#	Fund Manager	No. of Funds	AUM (BDT mn)	Mkt Cap (BDT mn)	Price to NAV(x)	Discount (%)	Dividend Yield (%)	YTD NAV Return (%)
1	SEML	2	1,552	1,420	0.91	(8.5)	5.3	(0.9)
2	AIMS	2	4,323	3,693	0.85	(14.6)	7.1	(4.7)
3	VIPB	2	2,354	2,102	0.89	(10.7)	10.0	(5.3)
4	ASIAN TIGER	1	821	667	0.81	(18.7)	14.4	(5.8)
5	CAPM	2	1,172	976	0.83	(16.7)	1.0	(6.9)
6	RACE	10	30,557	16,228	0.53	(46.9)	3.8	(8.5)
7	LR GLOBAL	6	10,082	7,362	0.73	(27.0)	6.8	(8.6)
8	ICB AMCL	10	7,240	6,116	0.84	(15.5)	8.6	(10.4)
9	VAML	2	2,853	2,373	0.83	(16.8)	11.3	(11.2)
	Total	**37**	**60,954**	**40,937**	**0.67**	**(32.8)**	**6.3**	**(7.26)**

Data Source: Bangladesh Capital Market Review by LBSL
Among these 9 asset management companies, RACE asset management company conquers almost half of the total market share of the mutual funds sector and ICB AMCL and LR GLOBAL have 12% and 16% market share respectively. Rest of the companies have insignificant market share

2. REVIEW OF THE LITERATURE

So many researches have been completed on the analysis and evaluation of mutual funds all over the world as many researchers have been doing their analysis on the mutual fund performance over time. But in Bangladesh, the research on evaluation of mutual fund performance and finding out the reasons behind the poor performance is rare in Bangladesh. It is proper time to do extensive research on the mutual funds of Bangladesh to improve the performance of the mutual funds

and make aware investors about the mutual fund concept, its operation and performance. However, this research paper has been prepared to evaluate the mutual fund performance in Bangladesh stock market and find out the reasons of poor performance of the mutual funds in Dhaka Stock Exchange based on some international researches.

The research persons whose names come first are Treynor, Sharpe and Jensen. After that many researchers have completed their researches based on the researches of these three discoverers. Jack Treynor (1965) has done his research on the performance evaluation of investment per unit of risk. He deliberated beta of the portfolio of the investments as the risk of the portfolio to move forward his

research works. He considered only systematic risk of the portfolio. In his research work, beta restrained the volatility of the investments relative to the S and P 500 index. According to the Jack Treynor, the only risk which investors considered is the risks related to the system itself which is the market risk.

The shortcomings of Jack Treynor's research work is that he did not reflect the unsystematic risk in evaluating the performance of the investment which has been enclosed by Willam Sharpe (1966). In Sharpe's research work, he used standard deviation to measure the risks which consider both the systematic and unsystematic risks of the investments. William Sharpe evaluated 34 open-ended mutual funds for the time period of 1945to 1963. He has found during this period that investment in open ended the mutual funds is an low-grade decision as only 11 mutual funds out of the of the sample mutual funds outperformed the Dow-Jones Industrial Average (DJIA).

One of the risk-adjusted performance measures of the investments is the Jensen's Alpha which is developed by Jensen in 1968. The foundation of Jensen's research work is the capital asset pricing model. Jensen's alpha can be used to evaluate the performance of the mutual funds after adjusting risks as well as judging the ability of the fund managers. Jensen has conducted his research work on 115 open end mutual funds with 10 years of data with the period of 1955-1965. The findings of his research work that it is not possible to generate any advantage using the buy and hold strategy.

McDonald (1973) has compared the return of the selected mutual fund in the French market with that of in the United States market. To conduct this research, McDonald procured the monthly price data of the eight eldest French mutual funds from period of 1964 - 1969. McDonald results were that the mutual fund in the French market performed poorer compared to the mutual funds in the United States market as it is represented in terms of return.

Miller and Nicholas (1980) has done research work on the capital market and selected 28 mutual funds to study the connection between their risk and return for the period of 1973 to 1974. They used both beta and Jensen alpha as the measure

of risk of the mutual fund. Their supposition is that there is feeble optimistic and feeble undesirable connection between betas and return from the market index and the betas.

Henriksson (1984) has showed a research work on 116 open-end mutual funds to examine their market-timing skills using the weekly return data which attuned for all dividends and the management charges from the early period of 1968 to mid of 1980. This study caused in that the fund managers were not fruitful in predicting the market timing as is in forecasting the large variations in the portfolio associated to the small variations.

Boudreaux and Suzanne (2007) grabbed 10 portfolios to examine the risk-adjusted enactment of the international funds using the Sharpe's ratio. 9 out of these 10 selected portfolios which outperform the market and reached to the supposition that risk lessening through constructing portfolios and higher returns might not be likely to get if the international funds are endured out of deliberation in making the portfolios.

Arugaslan and Ajay (2008) smeared a new measure, Modigliani and Modigliani (M2) to examine the performance of 50 US-based international mutual funds. After gauging the performance, they were linked with the directories both in domestically and internationally. The research determined that the investors may be a smaller amount involved to the mutual funds which is providing higher return owing to the higher riskiness linked to the funds providing a lower return.

3. OBJECTIVES OF THE STUDY

The objective of this research paper is to do a comprehensive analysis on the performance of the close-end Mutual funds of Dhaka Stock Exchange and find out the reasons behind the poor performance in Bangladesh. The objectives of the research paper are-

i. To measure the performance of the selected close end mutual funds in Dhaka Stock Exchange.
ii. To compare the performance of the selected close end mutual funds in Dhaka Stock Exchange with the benchmark index (DSEX) to conclude whether these selected close end mutual funds are able to generate higher returns than that of the benchmark index DSEX in terms of risks and returns.

iii. To evaluate the selectivity, diversification, timing ability, net selectivity advantages generated by the close end selected mutual funds.
iv. To find out the reasons behind the poor performance of mutual fund sector in Bangladesh
viii. To provide suggestions to improve the performance of the mutual funds in Bangladesh

4. METHODOLOGY

4.1 Sampling of Mutual Funds
Now there are 36(thirty six) close-end mutual funds managed by 9(nine) asset management companies. The name of asset management companies are:
1. Asian Tiger Capital Partners Asset Management Limited (ATCPAML).
2. Asset and Investment Management Services Bangladesh Limited (AIMS).
3. Capital and Asset Portfolio Management (CAPM).
4. ICB Asset Management Company Limited (ICB AMCL).
5. LR Global Bangladesh Asset Management Company.
6. RACE Asset Management PCL.
7. Strategic Equity Management Limited (SEML).
8. Vanguard Asset Management Limited (VAML).
9. VIPB Asset Management Company Limited.

Among 36 mutual funds, 10 mutual funds of 6 Asset management companies have been selected to evaluate the performance of the mutual funds of Dhaka Stock Exchange.

S/N	Name of the Funds	Asset Managers	Redemption Date	Number of Unit (mn)	Paid up (BDT'mn)	Year End
1	DBH1STMF	LR Global	2019	120.00	1,200.00	June
2	LRGLOBMF1	LR Global	2021	311.08	3,110.80	September
3	NCCBLMF1	LR Global	2022	108.50	1,085.00	December
4	EBLNRBMF	Race BD	2021	195.74	1,957.40	June
5	EXIM1STMF	Race BD	2023	123.47	1,234.70	June
6	TRUSTB1MF	Race BD	2019	264.39	2,643.90	June
7	ICBSONALI1	ICB AMCL	2023	100.00	1,000.00	June
8	GRAMEENS2	AIMS BD	2018	178.90	1,789.00	June
9	VAMLBDMF1	Vanguard AML	2026	104.32	1,043.20	September
10	SEBL1stMF	VIPB AMC	2021	99.78	997.80	June

Data Source: Bangladesh Capital Market Review by LBSL

4.2 Benchmark comparison
The DSEX index is used as the benchmark comparison and to calculate the market return.

4.3 The risk-free rate
In this Research paper, the cut-off rate of the 7days BB Bill has been considered as the risk-free rate and then average cut off rate of 7 days T bill rate for the period of 2013-2018(July) is used to measure the performance of mutual funds.

4.4 Time period
In this Research paper, the weekly data of NAV per share, market price, and stock and dividend information have been collected from 1st January 2013 to 31st December 2018.

4.5 Models and Methods
The innards of this report are analytical and descriptive. Different tools and models are used to analyze the performance of mutual funds and find out the reasons of performing poor in Bangladesh market.

To attain the first objective of evaluating the performance of the selected mutual funds, the weekly returns will be calculated using both the NAV data of the specific funds .The related risks with the returns and standard deviation of the returns and the beta of the fund will be measured as all of these are associated to the performance of the close end mutual funds. Then the portfolio returns will break-down into the risk-free rate, return due to systematic risks, return due to selectivity etc. Whether the certain funds have been capable of producing higher returns compared to the benchmark return which is the market return, will be examined using the Treynor Ratio (1965), Sharpe Ratio (1966) and Jenson alpha (1968).

The measurement of Treynor ratio is known as the incentive to instability ratio which reflects only the systematic risks. The key postulation of his model is to reduce the random risks by preserving a well-diversified portfolio. The Treynor's ratio is denoted as T which is the excess return over a risk-free rate per unit of systematic risks. [1, 2]

T= $Ri - Rf / \beta i$
Where,
Ri= Portfolio return
Rf= Risk free rate
βi= Market risk of the portfolio (systematic risk)

The selected close end mutual fund return is taken to be outclassed the market return if the T value using formula is greater than the benchmark return over weekly the risk-free rate. The key handicap of this measure is that the interpretation of the results of Treynor's ratio depends on the phase of the market, whether it is bull or bear. Another crucial handicap is that it does not consider the unsystematic risks. The handicap of the Treynor's ratio can be solved by using another measurement recognized as the incentive to variability ratio given by William Sharpe. This Sharpe ratio is denoted by S. The foundation of Sharpe ratio is that the investors do not hold portfolio to branch out the company specific risks. That's why they claim premiums for systematic and unsystematic risks. [3]

S= $Ri - Rf / \sigma i$
Where,
Ri= Portfolio return
Rf= Risk free rate
σi= Total risk of the portfolio

The portfolio whose value is greater than that of the market dominates the market. It means that the higher the Sharpe ratio of a portfolio, the better it performs than the market

Jensen has given a measure from the totally dissimilar view of the previous two measures defined. It is commonly known as Jensen's Alpha which is stranded on the capital asset pricing model (CAPM). Jensen also deliberates the systematic risks only and adopts the investors should accept at least the median return equals to the CAPM return. [4]

$\alpha p = rp – [rf + \beta p (rm – rf)]$

If the alpha is positive then the portfolio has outpaced the benchmark index it is considered and the negative alpha indicates the poor performance of the portfolio. In this Research paper, to obtain the alpha of the selected mutual funds, the risk premium of the selected fund will be reverted against the market risk premium and the intercept value of the regression will be the alpha of the selected close end mutual fund. To achieve the third objectives of the Research, three methods will be used. To assess the diversification advantage, the coefficient of determination (R^2) will be used. The excess return of the close end mutual fund over risk-free rate (rp – rf) has to be regressed against the excess return provided by the market (rm – rf) to identify the coefficient of determination. Market timing skill displays the efficiency of the mutual fund manager to forecast the market situation and adjusting the portfolio beta in accordance with the market ups and downs. To measure the market timing skills, a quadratic equation will be used to track the regression. This equation is recommended by Treynor and Mazuy K. (1966). [5]

$(rp – rf) = a + b (rm – rf) + c (rm – rf) 2 + \varepsilon p$

In the regression analysis, (rp – rf) is the dependent variable which will be regressed against the (rm – rf) the independent variables of this model. In this model, the value of c indicates the market timing skills of the fund managers. The higher positive value of c ensures the better timing ability of the fund managers.

The skill of the fund manager to find out the undervalued securities in order to generate a higher return, the Fama's (1972) decomposition measure will be used.

$(Rp – Rf) – (\sigma p / \sigma m) (Rm – Rf)$

If the results acquired from using this equation are positive then the fund manager is considered to be successful to select the undervalued stock that offers a higher return. [6,7]

5. EMPIRICAL RESULTS AND DISCUSSION

5.1. Average Weekly Returns of the close- end mutual funds

Name of the Fund	Average Weekly Return	Risk Free Rate	Excess return
GRAMEENS2	0.00112	0.000492667	0.000630339
TRUSTB1MF	0.000499556	0.000492667	6.88879E-06
DBH1STMF	0.000993351	0.000492667	0.000500683
SEBL1STMF	0.000940419	0.000492667	0.000447752
EBLNRBMF	0.000381252	0.000492667	-0.000111415
LRGLOBMF1	0.0004682	0.000492667	-2.44673E-05

Name of the Fund	Average Weekly Return	Risk Free Rate	Excess return
NCCBLMF1	0.000117661	0.000492667	-0.000375006
ICBSONALI1	0.000109486	0.000492667	-0.000383181
EXIM1STMF	0.00027452	0.000492667	-0.000218148
VAMLBDMF1	0.000709858	0.000492667	0.00021719
DSEX	0.001092004	0.000492667	0.000599337

Data Source: Lanka Bangla Financial Portal

From the above table it is observed that all of the funds are not able to outperform the market from return perspective. According to the overall close- end mutual fund perspective only few funds are able to beat the market. Though half of the mutual funds are able to provide more return than risk free return, mutual fails to beat the market. So, overall performance according to return perspective mutual fund performance is not satisfactory.

5.2 Risks of the close end Mutual Funds
Total risks and market risks of the selected mutual funds have been shown in the above table. Through the calculating of the beta, systematic risk of the close end mutual funds has been measured. TrustB1 has the highest beta which determines that the performance of the TrustB1 has highest volatility compared to market performance than other close-end mutual funds. VAMLBDMF1 has lowest beta which means that the performance of the VAMLBDMF1 has less volatility compared to market performance than other close mutual funds. According to the standard deviation, more the standard deviation of the mutual fund is riskier the close end mutual fund. Few funds have more standard deviation than market standard deviation of the market**.**

Name of the Fund	Weekly Risk(STD)	Beta
GRAMEENS2	0.01940	0.26785
TRUSTB1MF	0.01675	0.34545
DBH1STMF	0.01507	0.31274
SEBL1STMF	0.01083	0.10047
EBLNRBMF	0.01524	0.29745
LRGLOBMF1	0.01287	0.23118
NCCBLMF1	0.01766	0.21026
ICBSONALI1	0.02084	0.32958
EXIM1STMF	0.01413	0.11207
VAMLBDMF1	0.01464	0.06468
DSEX	0.01991	1.00000

Data Source: Lanka Bangla Financial Portal

5.3 comparison of the performance of close- end mutual funds

To determine the outperform the market several measures like Treynor Measure, Sharpe measure, Jensen Alpha, information ratio can be used. These measures show how well each close end mutual fund is performing and add value to the market.

Treynor's indices show the reward to Volatility ratios for the selected funds and DSEX index is considering as the benchmark index. Here only 4 funds have more reward to volatility ratio than the benchmark index. 50% funds have negative ratios. From the overall perspective it can be said that overall performance according to the Treynor's index is not satisfactory.

Name of the Fund	Treynor Ratio	Sharpe Ratio	Jensen Alpha	Information Ratio
GRAMEENS2	0.00235	0.03250	0.00076	0.05789
TRUSTB1MF	0.00002	0.00002	0.00018	0.02982
DBH1STMF	0.00160	0.00041	0.00065	0.06591
SEBL1STMF	0.00446	0.04136	0.00050	0.04564
EBLNRBMF	-0.00037	-0.00731	0.00004	0.02502
LRGLOBMF1	-0.00011	-0.00190	0.00009	0.03639
NCCBLMF1	-0.00178	-0.02123	-0.00027	0.00666
ICBSONALI1	-0.001163	-0.018386	-0.000221	0.005253
EXIM1STMF	-0.001946546	-0.015439471	-0.00016293	0.019429196
VAMLBDMF1	0.003357725	0.014837895	0.000249058	0.048495687

Data Source: Lanka Bangla Financial Portal

Sharpe indices show the reward to Variability ratios for the selected funds and DSEX index is considering as the benchmark index. Here only 1 fund has more reward to volatility ratio than the benchmark index. 50% funds have negative ratios. More the from the overall perspective it can be said that overall performance according to the Treynor's index is not satisfactory and underperformed the market

Jensen Alpha shows the excess return that been realized from the funds. Funds that have positive alpha that indicates that these funds have been outperformed the market. Except 3 funds all the funds have positive Jensen alpha but all the funds are not statistically significant. According to Jensen alpha performance of close end mutual funds are quite satisfactory. [8]

5.4 Diversification, timing ability, net selectivity advantages of the close- end mutual funds

Name of the Fund	FAMA DECOMPOSITION		
	Selectivity	**Diversification**	**Net Selectivity**
GRAMEENS2	0.000762301	-0.00042	0.00034
TRUSTB1MF	0.000177079	-0.000297187	-0.000120108
DBH1STMF	0.00065476	-0.000266246	0.000388514
SEBL1STMF	0.000497251	-0.000265685	0.000231566
EBLNRBMF	3.51282E-05	-0.000280472	-0.000245343
LRGLOBMF1	8.94282E-05	-0.000248783	-0.000159355
NCCBLMF1	-0.000271417	-0.00040567	-0.000677087
ICBSONALI1	-0.000220806	-0.000429845	-0.000650651
EXIM1STMF	-0.000162935	-0.000358166	-0.000521101
VAMLBDMF1	0.000249058	-0.000401867	-0.00015281

Data Source: Lanka Bangla Financial Portal

From the regression output r^2 of the each mutual fund has been found. Diversification advantage can be described through the r^2. Higher the r^2, greater the diversification advantage the portfolio have. From the above table it is obvious that few funds have been able to diversify their portfolio to some extent. Most of the funds diversification advantage is not so significant. The funds which have higher diversification advantage have lower unique risk. Few funds are new entrants in the market and so their diversification advantage may not represent the reality. [9, 10]

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Name of the fund	B (stock selection skills)	y(timing skills)	p(b)	p(y)	DW Test	Comments
GRAMEENS2	2.023728465	29.85463888	0.529320197	0.742345	1.885026	Not significant
TRUSTB1MF	0.331700596	3.626907659	3.72604E-12	0.005239	2.232662	Good timing skill
DBH1STMF	0.307259611	1.597293659	0.737588527	0.173512	2.263733	Not significant
SEBL1STMF	0.091068801	2.363697361	0.700183398	0.178019	1.958763	Not significant
EBLNRBMF	0.285491226	3.152686568	6.68922E-11	0.008352	2.120755	Good timing skill
LRGLOBMF1	0.224329822	1.858937047	2.09176E-09	0.070116	2.037469	Not significant
NCCBLMF1	0.20241553	2.081719795	0.000118728	0.15613	2.339477	Good stock selection skills
ICBSONALI1	0.35349136	2.519616558	1.24165E-07	0.173546	2.310882	Not significant
EXIM1STMF	0.115009258	2.047906	0.014036206	0.119335	2.11734	Good stock selection skills
VAMLBDMF1	0.108771163	3.598847214	0.211417677	0.291461	2.333764	Not significant

Data Source: Lanka Bangla Financial Portal

Net selectivity skill is composed of selectivity and diversification skill. The more net selectivity skills indicate the more efficiency of the fund manager's skills to identify the undervalued stocks and diversify the portfolio properly. From the above figure it is obvious that most of the fund manager's net selectivity skill is negative. It means that fund managers skill is not up to the mark. From the overall close end mutual fund perspective net selectivity skills of the fund managers are not satisfactory enough to compete with the benchmark return.

All the stock picking and timing skill is positive but not statistically significant. None close end mutual fund managers have both good skills which is statistically significant. Most of the case there is a autocorrelation problem in the data sets DW test is more than 2. That's why it is not the proper measurement of judgment the close end mutual fund performance. According to the Market timing and stock picking advantage only a few close-end mutual fund managers have properly selected the stocks at proper time to beat the market. [9, 10]

5.5 Setbacks of Mutual funds sector in DSE
   1) Lower Market Capitalization:
Market capitalization is determined by number of shares outstanding is multiplied by price of the shares. Mutual Fund Capitalization in total market capitalization is low. To boost up the confidence of Investors, more mutual funds is required in the market. Now mutual funds have 1.31% where as other sector contribution is much

higher. In many countries mutual fund market capitalization in more than 50% but in our country is below 2 %.So whenever investors look at its market capitalization, they are inclined to invest in mutual fund sector.

2) *Lower market turnover:*

Mutual fund Market turnover indicateshow frequently mutual fund exchanges hand. Mutual fund has lower market turnover than other sector's turnover. Due to lower market turnover its performance is becoming poor day by day. There needs of strategy to improve the condition of the mutual fund sector.

3) *Lower dividend distribution:*

Mutual fund is providing generally low dividend than other sectors in market. Investors generally want dividend from any investment. Getting dividend is the primary factor of investing mutual fund. If this sector is not able to provide enough dividends, people will not be interested to invest in it.

Name of the Fund	Dividend Yield			
	2014	**2015**	**2016**	**2017**
DBH1STMF	1.05%	10.53%	8.33%	5.30%
LRGLOBMF1	9.43%	18.18%	6.94%	9.40%
NCCBLMF1	5.36%	11.02%	6.16%	-
EBLNRBMF		-	-	3%
EXIM1STMF		-	-	2.90%
ICBSONALI1	11.36%	15.15%	12.10%	8.90%
GRAMEENS2		9.09%	9.26%	7.10%
SEBL1STMF	14.29%	15.06%	12.04%	9.50%
VAMLBDMF1		-	7.98%	10.50%

Source: Unicap Annual report 2017

Here most of the funds have below 15 % percent dividend yield. If it continues people will not be interested to invest in it. So performance of mutual funds should be improved otherwise people will not be confident of mutual funds

4) *Dispersion of trading price from NAV:*

Particulars	Dec 16	Dec 17	Change
NAV of CEFs (BDT mn)	55800.18	68,402.94	22.6%
DSEX (Broad Maket)	5036.05	6244.52	24%
Price to NAV of all CEF's	0.67	0.65	-3.5%

Source: Unicap Annual report 2017

NAV of close end funds have been increased by 22.6%. But overall performance of the mutual funds in 2017 is not satisfactory. Except one fund all funds are trading at discount and most of case they fail to beat the market

    5) Lower asset under management to GDP ratio :

Bangladesh has .48% AUM to GDP ratio whereas India has 10.73% and Thailand has 31.02%. The ratio is very insignificant one compare to other countries. Global average is also 32% whereas Bangladesh has only .48%.

5.6 Reasons behind the setbacks of the mutual fund sector

There are certain reasons behind the setbacks of the mutual fund sector is DSE are identified and they are discussing below-

    1) Managers inefficiency:

Asset Management Company	Portfolio Return	Over/(under Performance)
SEML	6.5%	-17.3%
CAPM	9.9%	-14.1%
ICB AMCL	16.2%	-7.5%
VANGUARD	18.4%	-5.4%
LR GLOBAL	20.3%	-3.5%
RACE	25.2%	1.2%
ATC	25.9%	1.6%
AIMS	26.2%	2.2%
VIPB	31.8%	7.8%

Source: Unicap Annual report 2017

Managers are not efficient enough to facilitate better return and there is also absence of integrity. Close end funds gained 22.6% return in 2017 where as Board market has provided return of 24.0%. So Mutual fund sector underperformed the market return in 2017. From the above table it is obvious that percentage of beat the market is lower than the percentage of the underperforming the market. Inefficiency of management is transparent here. Managers fail to pick up the undervalued and overvalued stock at proper time. There are 3 types of style and they are- value, growth, hybrid style. Mangers frequently change his style that can be a reason of poor performance of the mutual fund. Managers are not efficient enough to facilitate better return and there is also absence of integrity. [11,12]

    2) Lack of confidence of the investors:

Investors invest in mutual fund for getting professional advice, more return from investment. Managers fail to provide expected return to the investors that's why investors have lack of trust on Fund managers now. Due to lack of trust investors are interested in stock market rather than depending on mutual funds. As people are less interested that's why its price is less NAV.

A survey is done to get the feedback from the investors and results of survey are given below-

Most the investors are not getting their expected return from mutual fund investment. If an investor does not get the expected return from the investment how can he trust on fund managers? Investors are receiving fewer amounts of cash and stock dividend. So, due to not having expecting return from investment investors have lack of trust on investment. Most of the investors have lack of idea of portfolio

of their mutual fund investment. Most of the fund managers don't give proper disclosures of regularly and have less communication with the investors. That's why investors have lack of trust on Mutual fund.

Investor's perspective regarding mutual fund sector is not satisfactory. Most of the Investors are thinking Mutual fund will not do well in future. Due to inefficiency of the fund managers, low market capitalization, not having proper expected return, lower dividend yield, poor governance of this sector is the reasons behind poor performance. [13]

   3)   *Lack of Disclosure and communication with investors:*
On an analysis it is found that most of the fund managers don't provide disclosures timely. In most of the cases they are not interested to provide disclosure about their activities. In open ended fund managers generally provide less disclosures. Rules and regulation is flexible in case of open ended mutual funds. As lack of communication with the investors, investors are not aware of the activities of fund manager. If they are aware of it, they can push fund managers to improve their performance.

   4)   *Not timely Redemption of the fund:*
On an analysis it is observed that most of the liquidated funds were not given timely redemption. Timely redemption can boost the confidence of the investors. Whenever a fund is not liquidated timely it means it has problem of governing body and management. This characteristics damage the reputation of the fund managers and asset Management Company which will effect on other mutual funds of this asset management company.

   5)   *Investors Inclination towards short term trade:*
On an analysis it has been found that people hold the securities for short time of period. People are not interested to get the return for long period of time. In open end fund, when investors want to sell the fund, Fund managers have to give back money to them. Whenever Fund managers have fewer amounts of cash and cash equivalents securities in portfolio it will be difficult to give back the money to investors. Good Performance cannot be generated in short period of time. If investors don't hold the investment for long period of time, it will be difficult for fund managers to perform well. Investors generally panic themselves to sell the investment when they see the fall of the price of the mutual fund. [14]

6) *Volatility of capital market :*

In Bangladesh, Capital market is so volatile. It is very difficult to trace the movement of the market. No model works in the market. As there are more individual investors than institutional investors in Bangladesh stock market that's why market is so volatile. Individual investors make panic themselves when they see fall in price of share but institutional investors hold shares for long period of time. Due to more individual investors and less rules and regulation Capital market is so volatile.

7) *Lack of availability of quality shares and number of holdings in portfolio:*

In Bangladesh stock market there is lack of quality shares. That's why proper diversification benefit cannot be ensured. Due to have unavailability of quality shares fund managers fail to make a portfolio that will provide the expected return to the investors. Sometime Fund Managers want to diversify less their portfolio that's why expected performance cannot be obtained.

8) *Poor Governance :*

Rules and regulation in monitoring the activities of the fund managers of related to mutual fund is not sound enough. Bangladesh Security and Exchange Commission doesn't focus on mutual fund so much. Mutual fund is taken care well all over the world; it has a lot contribution to GDP, have good market turnover and market capitalization. But BSEC make so many limitations in Bangladesh market that's why it is quite difficult to do well in this sector. Many und mangers don't follow the rules and regulations of the mutual fund operation and BSEC is not taken care it. For the poor performance poor governance is the liable. To improve the performance strong governance is required.

9) *Unskilled Human resource :*

From an analysis it is observed that not every fund management team is skilled enough. There are few skilled people in the team who have good knowledge about the market and know the rule and regulations regarding the mutual fund. Poor performer mutual funds have this problem. When I study on good mutual fund I have found that its management team is so skilled enough to give the proper return to the investors. Unskilled human resource is the barrier of good performance..

10) *Concentrated Market:*

In Bangladesh, Mutual Fund sector is highly concentrated. The performance of the sector depends on few companies. RACE Asset Management Company is operating 50% close end funds, ICB and LR Global are operating 40% close end funds and rest of the asset management company is operating 10% of the close end mutual funds. There are lacks of close end mutual fund to make the mutual fund sector competitive. [1]

6. CONCLUDING REMARKS

The performance of mutual fund in Bangladesh is not satisfactory. All over the world Mutual fund has lot of contribution to GDP, market capitalization. But in our country it's not taken care well. To improve the performance of this sector, few things should be ensured properly to bring back confidence of the investors and that are-

1) Strong Governance and monitoring system should be ensured
2) Regulatory reform on investment exposure of mutual fund should be modified
3) There needs of regular trainings of fund managers so that they can make knowledgably investment and provide expected return to the investors
4) There needs of skill human resource of the fund management team
5) Make sure of regular disclosures to the investors and communicate with the investors in regular basis
6) Make session for investors so that they can hold the fund for long period of time
7) Try to Provide the expected return to the investors
8) More mutual fund should be introduced with fund good management team
9) Regular inspection of mutual funds portfolio and operation
10) Ensuring the transparency of the mutual fund managers
11) Make sure the immediate redemptions of the mutual funds
12) Make sure the good corporate governance of the listed companies
13) There needs an organized secondary debenture market in Bangladesh
14) Market needs to be competitive to improve the performance of the sector.

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