Competition, portfolio concentration and performance of equity mutual funds in the European Union

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Abstract

The dissertation investigates, in different settings, the competition/strategic behaviour, portfolio concentration/diversification levels and the performance of equity mutual funds from seven countries in the European Union. These three features are analysed by applying, respectively, the Brown, Harlow e Starks (1996) methodology, the coefficient of determination, obtained from the market model, and several performance evaluation models/measures. To study the relation among these three mutual fund industry aspects, we propose the use of Spearman’s Rank Correlation Coefficient, contingency tables, as well as the portfolio construction methodology.

The research involves four stages. In the first stage, strategic behaviour among mutual funds from the European Union is identified. This behaviour is stronger among funds from Belgium, Spain and the United Kingdom. Furthermore, with the exception of United Kingdom, this behaviour is stronger in the most recent period and among young funds. In the second stage of this research, it is shown that Belgian funds seem to be those that exhibit more concentrated portfolios, whereas Italian funds are the most diversified portfolios. In the third stage, the results indicate that, besides the relevant effect of survivorship bias, the performance of equity mutual funds in the European Union is neutral to negative, both in terms of global performance as well as in its timing and selectivity components. This weak performance seems to be driven mainly from funds with a longer period of activity and from smaller funds. In terms of countries, funds in Belgium are those that show a less negative performance, whereas funds in Italy are those that exhibit the worst performance. In the final stage of the research, the results lead to two conclusions. On the one hand, there is only slight evidence that when there is strategic behaviour managers tend to concentrate their portfolios and obtain better performance. On the other hand, it seems funds/markets with more concentrated portfolios tend to obtain better performance. Moreover, the most concentrated funds in a certain period tend to obtain a better performance in the following period.

Keywords: Competition; Portfolio; Performance; Mutual funds; European Union