Impact of Some Major Determinants on Mutual Fund Growth in Bangladesh

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Abstract

This study empirically examines the impact of some major determinants on mutual fund growth in Bangladesh. 8 mutual funds of Investment Corporation of Bangladesh are selected over the period 1996 to 2012. Basic regression model, panel data model with fixed effect and random effect models, and seemingly unrelated regression (SUR) framework are used. The results find that assets turnover ratio and risk-adjusted return have significant positive impact; expense ratio has significant negative impact and family proportion and liquidity to net assets ratio have insignificant impact on mutual fund growth.

Keywords: *Mutual Funds, Major Determinants, Growth, Panel Data, SUR Framework.*

Introduction

It is generally believed that mutual funds have better growth performance compared to growth performance of other securities in the capital market. There are different factors, which determine the growth of mutual funds. Different determinants have different impact on the growth of mutual funds. Some determinants respond positively to the growth of mutual funds, and some respond negatively. Edelen at al. (2007) state that trading costs have increasingly detrimental impact on performance as the funds' relative size increases. Assets turnover, family proportion, and expense ratio are positively leading the growth of mutual funds, in contrast with management fee and risk adjusted returns that are negatively associated with mutual fund growth in Pakistan (Nazir and Nawaz, 2010).

The mutual fund is a professionally managed portfolio scheme of investment. The fund is raised from the subscriptions of the individual investors in the form of selling unit certificates and then invested in shares, debentures and other securities. The income earned through these investments and the capital appreciations realized are shared by its unit holders in proportion to the number of units owned by them. Marginal investors are probably unknown about the capital market behavior. Thus, a mutual is the most suitable investment for the less efficient investors as it offers an opportunity to invest in a diversified professionally managed basket of securities at a relatively low cost.