

**MUTUAL FUND PERFORMANCE EVALUATION
IN PAKISTAN: AN APPRAISAL OF SELECTED FUNDS
(2005-2007)**

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EXECUTIVE SUMMARY

Investors are always interested in evaluating the performance of their portfolios. Those who pay professional money managers should evaluate their performance to determine whether the investment performance justifies the service's cost. This project covers the evaluation of closed-end mutual funds performance on Karachi Stock Exchange.

Some issues have been identified for which performance of mutual funds have been evaluated in this project. They include the need to incorporate risk in the evaluation and the evaluation of risk-return tradeoff. The performance of portfolio managers might be evaluated on the basis of their ability to derive above-average returns, to diversify the portfolio completely, and to predict market timings, or select undervalued issues for the portfolio or both. To address these issues, several portfolio performance evaluation measures have been used, which include Treynor, Sharpe, Information ratio, Jensen Alpha and Fama measures. These measures have been applied on a sample of eight equity closed-end mutual funds, which accounts for fifty percent of the population, using their daily stock prices for the last two years.

The overall results suggest that mutual funds in Pakistan are not able to add any significant value for the investors. Results for all the three time horizons covered (i.e. daily weekly and monthly) are showing that all the sample funds are under performing as compared to the market. The need of this hour is to mobilize savings of the individual investors through the offering of variety of funds (with different investment objectives). The success of this sector depends on the performance of funds industry and the role of regulatory bodies.

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