

[Home](#) > [Journal of Asset Management](#) > Article

Return-based classification of absolute return funds

| Original Article | Published: 07 May 2015

| Volume 16, pages 117–130, (2015) [Cite this article](#)[Journal of Asset Management](#)[Aims and scope](#) →[Submit manuscript](#) →[Philipp Gerlach](#)¹ & [Raimond Maurer](#) 119 Accesses 2 Citations [Explore all metrics](#) →

Abstract

We apply a return-based classification approach on a sample of absolute return funds registered for sale in Europe. The classification process results in eight groups with specific risk and return profiles. Each group can be characterized by two dimensions of an underlying investment style: asset allocation and trading strategy. While the returns of one group are largely determined by the asset allocation, the returns of the seven other groups are driven by different trading strategies. Our estimated classification explains 20 per cent of the in-sample and 13 per cent of the out-of-sample cross-sectional return variation, which is superior to existing approaches.

This is a preview of subscription content, [log in via an institution](#) to check access.

Access this article

Log in via an institution →

Subscribe and save

✓ Springer+

from €37.37 /Month

- Starting from 10 chapters or articles per month
- Access and download chapters and articles from more than 300k books and 2,500 journals
- Cancel anytime

View plans →

Buy Now

Buy article PDF 39,95 €

Price includes VAT (Poland)

Instant access to the full article PDF.

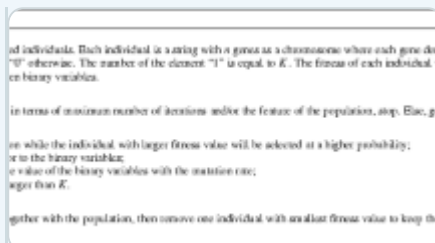
[Institutional subscriptions](#) →

Similar content being viewed by others



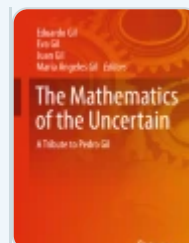
Excel-Based Simulator for a Better Decision Making in a Financial Market

Chapter | © 2024



A sparse enhanced indexation model with chance and cardinality constraints

Article | 25 March 2017



Measuring Uncertainty in the Portfolio Selection Problem

Chapter | © 2018

Explore related subjects

Discover the latest articles, books and news in related subjects, suggested using machine learning.

[Behavioral Finance](#)

[Categorization](#)

[Mathematical Finance](#)

[Microfinance](#)

[Quantitative Finance](#)

[Statistical Finance](#)

Notes

1. Data source: Lipper, a Thomson Reuters Company.
2. The classification algorithm requires a complete returns time-series for each fund. A sample size of 3 years is a favorable tradeoff between the number of funds that enter the classification and the return history. Despite the relatively small time span of 36 months, the monthly returns of the various asset classes show substantial fluctuations.
3. The χ^2 test could be sensitive to departures from normality ([Brown and Goetzmann, 1997](#)). In our study, the skewness (kurtosis) of the heteroskedasticity-adjusted residuals depending on K are in the range of -0.05 to -0.12 (3.7 and 4.7), indicating that the χ^2 test is well specified.

References

Brown, S.J. and Goetzmann, W.N. (1997) Mutual fund styles. *Journal of Financial Economics* 43 (3): 373–399.

[Article](#) [Google Scholar](#)

Brown, S.J. and Goetzmann, W.N. (2003) Hedge funds with style. *Journal of Portfolio Management* 29 (2): 101–112.

[Article](#) [Google Scholar](#)

Clifford, C., Jordan, B. and Riley, T. (2013) Do absolute-return mutual funds have absolute returns? *Journal of Investing* 22 (4): 23-40.

[Article](#) [Google Scholar](#)

European Parliament and European Council (1985) Directive 85/611/EEC of 20 December 1985 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS). *Official Journal of the European Union* 28(L 375): 3-18.

European Parliament and European Council (2007) Directive 2007/16/EC of 19 March 2007 implementing council directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions. *Official Journal of the European Union* 50(L 79): 11-19.

European Parliament and European Council (2009) Directive 2009/65/EC of the European parliament and of the council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS). *Official Journal of the European Union* 52(L 302): 32-96.

Fung, W. and Hsieh, D.A. (1997) Empirical characteristics of dynamic trading strategies: The case of hedge funds. *The Review of Financial Studies* 10 (2): 275-302.

[Article](#) [Google Scholar](#)

Gruber, M.J. (2001) Identifying the risk structure of mutual fund returns. *European Financial Management* 7 (2): 147-159.

Jain, A.K. (2010) Data clustering: 50 years beyond K-means. Pattern Recognition Letters 31 (8): 651-666.

[Article](#) [Google Scholar](#)

Lipper (2012) Lipper global classification,
http://www.lipperweb.com/docs/Research/Methodology/Lipper_Global_Classifications_Definitions2012.pdf, accessed 26 May 2013.

Lochmüller, R. (2008) Fünf Jahre Absolute-Return-Strategien in Deutschland – eine Qualitätsanalyse. Zeitschrift für das gesamte Kreditwesen 61 (16): 782-784.

[Google Scholar](#)

Pojarliev, M. and Levich, R.M. (2014) Evaluating absolute return managers. Financial Markets and Portfolio Management 28 (1): 95-103.

[Article](#) [Google Scholar](#)

Quandt, R.E. (1960) Tests of the hypothesis that a linear regression system obeys two separate regimes. Journal of the American Statistical Association 55 (290): 324-330.

[Article](#) [Google Scholar](#)

Sharpe, W.F. (1992) Asset allocation: Management style and performance measurement. Journal of Portfolio Management 18 (2): 7-19.

[Article](#) [Google Scholar](#)

Steinley, D. (2006) K-means clustering: A half-century synthesis. British Journal of Mathematical and Statistical Psychology 59 (1): 1-34.

[Article](#) [Google Scholar](#)

Steinley, D. and Brusco, M.J. (2007) Initializing k-means batch clustering: A critical evaluation of several techniques. *Journal of Classification* 24 (1): 99–121.

[Article](#) [Google Scholar](#)

Waring, M.B. and Siegel, L.B. (2006) The myth of the absolute-return investor. *Financial Analysts Journal* 62 (2): 14–21.

[Article](#) [Google Scholar](#)

Acknowledgements

The authors are grateful for research support provided by the German Investment and Asset Management Association (BVI). Opinions and errors are solely those of the authors and not of the institutions with whom the authors are affiliated. © 2015 Gerlach and Maurer.

Author information

Authors and Affiliations

Finance Department, Goethe University, Gruenenburgplatz 1 (Uni-PF. H 23), Frankfurt am Main, Germany

Philipp Gerlach

Additional information

¹research assistant at the Chair of Investment, Portfolio Management and Pension Finance at the Finance Department of the Goethe University Frankfurt. His main research interests focus on style analysis and style classification of mutual funds.

[Reprints and permissions](#)

About this article

Cite this article

Gerlach, P., Maurer, R. Return-based classification of absolute return funds. *J Asset Manag* **16**, 117–130 (2015). <https://doi.org/10.1057/jam.2015.9>

Received

28 February 2015

Revised

28 February 2015

Published

07 May 2015

Issue date

01 March 2015

DOI

<https://doi.org/10.1057/jam.2015.9>

Keywords

[absolute return funds](#)

[return-based classification](#)

[style analysis](#)

Search

Search by keyword or author



Navigation

Find a journal

Publish with us

