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Active management, fund size, and bond mutual fund returns

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Abstract

Conventional wisdom holds that bonds are relatively homogenous investments compared to equities. Consequently, factors that explain variation in returns among bond mutual funds may differ in magnitude from those for equity mutual funds. In this study, a time-series cross-sectional analysis is employed to investigate the relationship between a bond fund's risk-adjusted return and specific fund attributes. Results indicate that a bond fund's past performance does not predict future performance and that bond fund managers are generally ineffective at increasing risk-adjusted returns. However, unlike equity mutual funds, bond mutual funds do appear to enjoy economies of scale.

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