UNIVERSITY OF GHANA

CORPORATE GOVERNANCE AND PERFORMANCE OF MUTUAL FUNDS IN GHANA

ANTOINETTE YAA ANSAH

(10096250)

THIS THESIS IS SUBMITTED TO UNIVERSITY OF GHANA, LEGON IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF MPHIL FINANCE DEGREE

MARCH, 2015

DECLARATION

I do hereby declare that this work is the result of my own research and has not been presented by anyone for any academic award in this or any other university. All references used in the work have been fully acknowledged.

I bear sole responsibility for any shortcomings.

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ANTOINETTE YAA ANSAH DATE

(10096250)

CERTIFICATION

I hereby certify that this thesis was supervised in accordance with procedures laid down by the university.

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PROF. JOSHUA ABOR DATE

SUPERVISOR

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PROF. A. Q. Q. ABOAGYE DATE

SUPERVISOR

DEDICATION

This work is dedicated to God, my children and husband (Worlanyo) for their encouragement and love.

ACKNOWLEDGEMENT

All praise and thanks to the Almighty God for his superabundant grace and mercies without which I am nothing.

I also acknowledge and appreciate the contributions of my knowledgeable supervisors Prof. Joshua Abor and Prof. A. Q. Q. Aboagye.

ABSTRACT

This study examined the relationship between corporate governance and performance of mutual funds in Ghana during the 2008 to 2013 period. Using panel regression model, the study found no significant relationship between board size, board composition as well as fund size. However, a significant positive relationship has been found between frequency of corporate board meetings and corporate performance, implying that boards that meet more frequently tend to generate higher financial performance. Fund age was also found to be negatively related to fund performance. As fund age progresses, risk-adjusted returns decrease. The study also discovered a significant negative relationship between gender diversity and fund performance.

This research is important because it shed new light on the principal-agent issue in the mutual fund industry. Overall, the findings provided empirical support for agency theory, which suggests that corporate boards that meet more frequently have increased capacity to effectively advise, monitor and discipline management, and thereby improving firm performance

Keywords: Corporate Governance, Sharpe ratio, Treynor ratio, portfolio returns, mutual funds.

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CHAPTER ONE

GENERAL INTRODUCTION

1.1 Background to the Study

The study examines governance and performance issues around mutual funds in Ghana. In particular, it investigates some characteristics of corporate governance arrangements, aiming at reducing conflict of interest in the management of mutual funds in order to maximize shareholder value. As mutual fund companies are characterised by separation of ownership and control and managers and shareholders have different goals, conflict of interest becomes a concern. For instance, as shareholders aim at maximizing their risk-adjusted returns, fund managers have a strong incentive for expanding the fund size because management fees are determined by the asset size (Mahoney, 2004). However, as investors are interested in maximising shareholder value, managers may have other objectives such as maximising their salaries, growth in market share, or an attachment to particular investment projects (Maher & Andersson,1999). As effective corporate governance serves as a check on managerial behavior in the management of the resources of the company, (Bopkin & Zangina, 2009), it can be argued that mutual funds need effective corporate governance arrangements.

Generally, the institution of corporate governance has to do with the activities of the Directors and the top management of an organization to ensure that an organization is managed within the generally accepted rules, regulations and policies operating within the business environment. According to Aljifri and Moustafa (2007), a corporate governance system is more-or-less country-specific framework of legal, institutional and cultural factors shaping the patterns of influence that shareholders or (stakeholders) exert

on managerial decision making. Managers have to comply with rules, regulations and policies in running the affairs of an organization in order to ensure separation of ownership and control. One could argue that, the expertise of management is therefore crucial in upholding the control framework as they strive to achieve corporate objectives. Management is also expected to conduct its business according to ethical standards in order to mitigate principal-agent problems. Jensen and Meckling (1976), argued that, the agency problem will arise, persist and interfere with the objective of maximizing shareholder wealth unless managerial incentive is aligned and effective board monitoring offered as these provide a potential basis for principal-agent conflict. Academics like (Murphy 1999; Core, Guay & Larcker 2003; Hall & Liebman 1998) have documented pay-performance relationship to support the view that incentive pays, such as bonuses, options, and stock grants align managerial interest with that of the shareholders.

It appears that all resource of mutual fund needs to be managed in a way that would minimise the principal-agent conflict so that the shareholder's aim of maximizing value would be achieved. Chou and Wang (2007) found evidence of well governed funds performing their fiduciary duties towards their shareholders whereas poorly-governed funds lacked in this aspect. Paul (2009) examined the disclosure transparency of socially responsible mutual funds and found that disclosure transparency increases when mutual fund managers have a great commitment to providing socially responsible mutual fund. Alternatively, Wellman and Zhou (2007) found that funds with higher corporate governance rating out-performed funds with bad grades and concluded that corporate governance significantly affects performance of mutual funds. Khorana (1996) has shown that in the mutual fund industry, effective fund governance can be facilitated by

"internal" (board) or "external" (fund inflows) sources. Wellman & Zhou (2007) have indicated that board quality is the most important factor to explain mutual funds' performance among all possible fund governance factors.

Kyereboah-Coleman and Biekpe (2006) suggested that well-governed firms have higher performance because good governance generates investor goodwill and confidence that translate into higher share prices. In the literature, there is a view that governance arrangement enhances access to financing, lowers the cost of capital of firms and enhances financial performance (Claessens *et al.*, 2002). Alternatively, weak corporate governance frameworks reduce investor confidence, and can discourage outside investment hence the profitability of a firm as well as the value of a firm. For example, Harford *et al*. (2008) maintain that the investment of cash by managers in weak corporate governance set-ups reduce future profitability, which is priced into a firm's stock. The accession is in agreement with the free cash flow hypothesis advanced by Jensen (1986) and the general theory of agency problem.

Empirical studies have cited poor or ineffective governance as the main cause of most financial crisis, Johnson *et al.* (2000). Alternatively, Becht, Bolton and Röell (2002) identify a number of reasons for the growing relevance of corporate governance, which includes the world-wide wave of privatization, the pension fund reform and growth of private savings, the takeover wave of the 1980s, the deregulation and integration of capital markets, the 1997 East Asia Crisis, and the series of recent corporate scandals involving firms such as Enron and WorldCom in the USA as well as the market timing and late trading fraud such as Revenue-Sharing and Directed Brokerage scandals that hit Wall Street and corporate America centers on the mutual fund industry in 2003 and

2004. However, Qian (2006) examined the role of fund governance and documented that the way that investors withdraw from or invest in funds can be an effective governance mechanism. Mutual funds with higher flow sensitivity have lower trading scandals

1.2 Research Problem

Mutual fund governance has been identified by various scholars in previous studies to influence fund performance but has been confronted with agency conflicts in fund investing and this has negatively affect mutual fund shareholder interests (Haslem, 2012). Agency conflicts may also consist of control framework within which managers strive to achieve the objectives of the firm which include shareholder value maximization and other unethical activities such as insider dealings and conflict of interest in terms of rivalry trade. According to Bogle (2009) mutual fund managers owe fiduciary duties for which they are duty bound in representing and serving mutual fund shareholders but are overwhelmed by their financial interest in gathering and managing the assets of these funds.

Jensen (1967) also identified the central problem in finance and especially portfolio management as that of evaluating the "performance" of portfolios of risky investments. The concept of portfolio "performance" has two distinctive dimensions that has to do with the ability of the portfolio manager or security analyst to increase returns on the portfolio through successful prediction of future security prices, and also the ability of the portfolio manager to minimize (through "efficient" diversification) the amount of "insurable risk" born by the holders of the portfolio. He also pointed out that the major difficulty encountered in attempting to evaluate the performance of a portfolio in these two dimensions has been the lack of a thorough understanding of the nature and

measurement of "risk." Evidence seems to indicate a predominance of risk aversion in the capital markets, and as long as investors correctly perceive the "riskiness" of various assets this implies that "risky" assets must on average yield higher returns than less "risky" assets. Hence in evaluating the "performance" of portfolios the effects of differential degrees of risk on the returns of those portfolios must be taken into account.

Undoubtedly, the basic investment assumption is that investors are able to see through different investment opportunities, evaluate the associated risks with the expected returns, estimate acceptable level of risk and then make a decision on where to invest. Investment analysts usually advice investors to put their monies where their mouths are (Merkle & Weber, 2011). Portfolio theory assumes that investors form expectations about return and risk of securities and trade accordingly (Markowitz, 1952). They are also faced with a number of behavioral threats, one of which is their risk seeking behavior whether they are risk averse, neutral or risk seekers. Nonetheless, how fund managers actually reach their decisions and what information they use is largely unknown at present and as a result, the investment process remains a black box (Kerstin *et al*., 2007).

It looks as if all the empirical studies on the subject matter focused on developed economies, while little has been done on mutual fund governance in Sub-Saharan Africa, especially on decision processes of fund managers. Ding and Wermers (2005) examined the joint relationship between fund managers and fund directors for the first time. They documented that when poor performing managers are replaced, it is more likely done by funds that have larger boards and higher proportions of outside directors. Chen and Huang (2011), analyzed relationships between Morningstar's Stewardship Grades-

manager incentives, board quality, and fund performance and found them to be positively related to fund performance. Gompers *et al*. (2003) examined the relationship between corporate governance and long-term equity returns, firm value and accounting measures of performance pointed that well-governed firms have higher equity returns and command higher values. In consistence with this assertion, Brown *et al*. (2005) found that better-governed firms are relatively more profitable, more highly priced, and pay out more cash to their shareholders. Also Handley-Schachler *et al*. (2007) in their paper on corporate governance in the financial services sector showed that the role of the corporation serves purely as an agency for wealth-maximization for all concerned. Others such as Warburton (2011) argued that tight fiduciary duty lowers agency conflict and opportunistic behaviour by insiders.

Empirical studies carried out in Ghana in relation to corporate governance were based on firms listed on Ghana Stock Exchange (GSE) (Abor *et al*., 2007; Isshaq *et al*., 2009 & Kyereboah-Coleman *et al*. (2007). For instance, Kyereboah-Coleman *et al*. (2007) examined the effect of corporate governance on the performance of firms in Africa including Ghana by using both market and accounting based performance measures and found that large and independent boards enhance firm value and that combining the positions of CEO and board chair has a negative impact on corporate performance. The studies also indicated that CEO's tenure in office enhances a firm's profitability whiles board activity intensity affects profitability negatively. The size of audit committees and the frequency of their meetings have positive influence on market based performance measures and that institutional shareholding enhances market valuation of firms. Finally, the study results pointed out that both country and sector characteristics influence the impact of governance on corporate performance. For enhanced

performance of corporate entities, the researchers recommended a clear separation of the positions of CEO and board chair and also suggested that firms must maintain relatively independent audit committees.

Abor *et al.* (2007) investigated the effects of corporate governance, and ownership structure on the performance of Ghanaian SMEs and what the implications are for financing opportunities. The results showed that board size, board composition, management skill level, and CEO duality, inside ownership, family business, and foreign ownership have significantly positive impacts on profitability and according to them; corporate governance can greatly assist the SME sector by infusing better management practices, stronger internal auditing, greater opportunities for growth and new strategic outlook. Isshaq *et al.* (2009) further considered the impact of corporate governance, ownership structure, and firm value on the Ghana Stock Exchange (GSE) and found Board size to be positively and statistically significantly related to share price among the corporate governance variables. However, there haven't been found any formal studies on corporate governance of mutual funds of Ghana.

However, the high degree of uncertainty associated with Ghana's unstable macroeconomic environment has negatively affected both the size and the quality of financial intermediation and has been reflected in the behaviour of participants in the financial system making Ghana's savings and investment performance very low even by sub-Saharan African standards. The financial market in Ghana remains relatively underdeveloped and limited in terms of scope of diversification across and within classes of assets in both equity and bond markets. Only few financial houses are into mutual fund business and even use the Treasury bills as a benchmark for pricing instead of the

risk-adjusted returns. The main purpose of this study is to address this issue and to examine the corporate governance structures of mutual funds and also to assess the relationship between corporate governance and performance of mutual funds.

1.3 Objectives

The objectives of the study are:

i. To examine the corporate governance structures of mutual funds in Ghana.

ii. To assess the relationship between corporate governance and performance of mutual funds in Ghana

1 .4 Significance of The Study

The significance of the study can be viewed along three strands: Research, practice and Policy. In relation to Research, the study will add to knowledge and also serve as basis for further work in the crucial area for research. It will also provide guidelines to firms on better measures to adopt in order to mitigate agency problem as well as the acceptable policy that will motivate shareholders. Hopefully, it will also give insight into the current state and performance of the Ghana Financial Services Sector as far as mutual fund administration is concerned. Lastly, the research will contribute to the country's literature on mutual fund governance, particularly, on the context of Ghana based business organizations. Finally, it is hoped that, this study will guide the performance and implementation of the three- tier pension scheme in Ghana.

1.5 Scope of the study

Given the vast amount of data collection and research that needs to be provided about the corporate governance and performance of mutual funds industry in Ghana, there is every need to define the boundaries and scope of this research. It is practically not possible at this stage to cover every research issue about the performance of the industry. For this reason, the scope of this study shall be limited to the research objectives provided above. The study focused on the eight main mutual funds and unit trusts run by Data Bank Asset managers namely the Epack, Money Market fund, Ark fund, the Balance Fund, HFC unit trust, HFC Equity Trust, HFC Real Estate Investment Trust (REIT) as well as NTHC Horizon Fund and SAS Fortune Fund. However, due to time and data constraints, the research is limited to only 2008 to 2012.

1. 6 Research Limitation

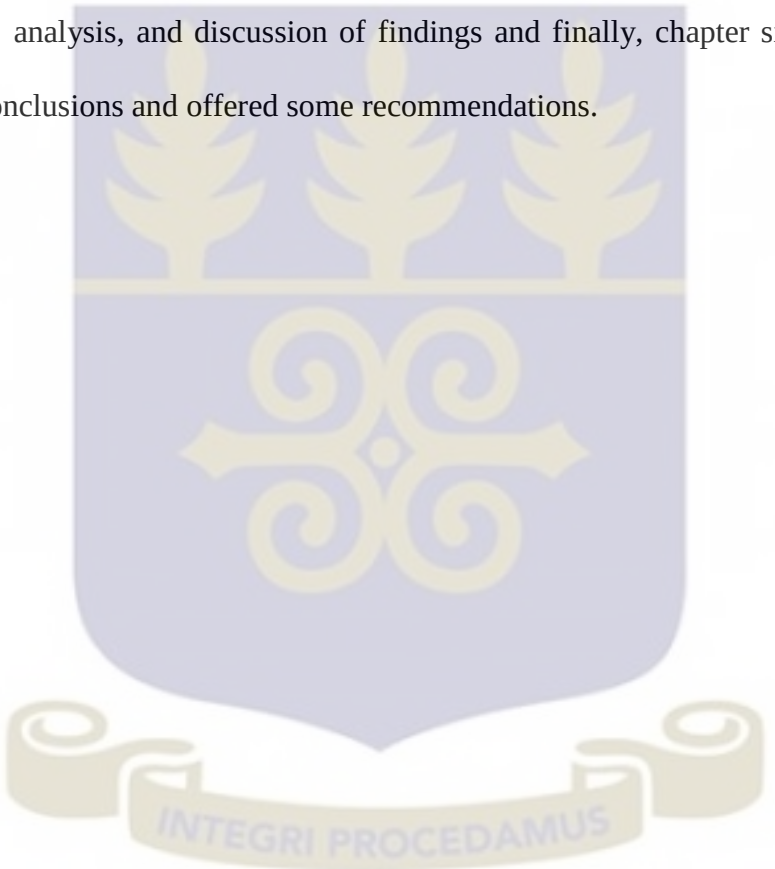
Out of the thirty mutual funds registered with Security and Exchange Commission (SEC) in Ghana only eight have been sampled for the study Even though, it is not statistically representative of the whole population, it is deemed adequate because an in-depth study carried out on the eight companies running such funds or industry. It looks as if no studies have been conducted in the mutual funds industry in Ghana with regards to corporate governance. As such it was difficult for the researcher to draw enough relevant literature relating to mutual fund management in Ghana.

1.7 Chapter Outline

Chapter one consists of the research background, research problem, research purposes, objectives of the study, research questions, research significance, the scope and limitation of the research. The chapter two reviews the relevant literature on corporate

governance of mutual funds, theoretical and models of corporate governance for the research. Chapter three focused on the brief overview of mutual fund governance in Ghana.

Chapter four highlighted the methodological approaches on the study area, source and study population, sampling techniques instrument and method, data processing and mode of analysis and variables and ethical considerations. Chapter five illustrated of data presentation, analysis, and discussion of findings and finally, chapter six discussed the summary, conclusions and offered some recommendations.



CHAPTER TWO

OVERVIEW OF COLLECTIVE INVESTMENT SCHEME IN GHANA

2.1 Introduction

Collective investment schemes are pools of funds that are managed on behalf of investors by professional money managers. The manager uses the money to buy stocks, bonds, or other securities according to specific investment objectives that have been established for the scheme. In return for putting money into these funds, the investor receives shares or units that represent his or her pro-rata share of the pool of fund assets. In return for administering the fund and managing its investment portfolio, the fund manager charges a fee based on the value of the fund's assets. Collective investment schemes in Ghana take the form of either a Mutual Fund or a Unit Trust.

The characteristics of collective investment schemes in Ghana are provided for in the Securities Industry (Amendment) Act 2000 (Act 590) and are not necessarily the same as those of other jurisdictions. There exist variations in collective investment schemes from one jurisdiction to another. All securities in Ghana are subject to securities laws that are administered and enforced by the Securities and Exchange Commission (SEC). The securities laws regulate collective investment schemes in four basic ways: Licensing Requirements, Prospectus Requirements, Regulations on Fund (Operations and Sales Conduct), and Surveillance and Monitoring.

Currently there are four main types of schemes available namely Equity or Growth Fund, Balance Fund, Money Market Fund and Real Estate Fund. Others are Fixed Income Funds, Global and Foreign Funds, Specialty Funds and Index Funds. Recent activities on the securities market of Ghana shows that the collective investment scheme is the fastest

growing segment of the market. For instance, by the end of 2013, a Country Report released by SEC-Ghana in February 2014 showed that thirty (30) collective investment schemes had been licensed to operate by the Securities and Exchange Commission. The collective investment schemes comprised fourteen (12) unit trust schemes and eighteen (18) mutual funds. Out of the eighteen, only two are operating purely as a money market fund. Seven (7) Collective Investment Schemes were approved and launched in 2013. These were Siriu Opportunity Fund, Omega Income Fund, Omega Equity Fund, Kiddifund, All-Time Bond Fund and EM Balanced Unit Trust. Merban Fund, an open-ended Fund was also launched and has since been operational.

2. 2 Collective Investment Schemes

Investment may be defined as putting money into a venture in order to gain profit or interest. There is more value in putting ones money or savings to work than in keeping it idle. This assertion is based on the basic principle of finance regarding the time value of money which states that" a cedi today is worth than a cedi tomorrow". This simply means that the value of money depreciates with time, especially because of the possible income foregone if the money were put in a savings account, shares or any other productive activity. Broadly speaking, investment is the commitment of funds to one or more assets that will be held over some future time period for return that is commensurate with risk. The field of investments, therefore, involves the study of the investment process which is concerned with the management of an investor's wealth- the current income and the present value of all future income.

Investments to collective investment schemes are medium to long-term commitments to certain assets which are expected to provide some returns or capital appreciation or a

mixture of both. Collective investment schemes or companies are bodies that pool the resources of a group of people to invest in order to achieve economies of scale. By pooling the funds of thousands of investors, a widely diversified portfolio of financial assets can be purchased and the investment company can offer its owners or shareholders a variety of services

There are direct and indirect forms of investments. The direct investment involves an investor investing directly in financial assets in return for dividends or interest and capital gains. In this case the financial assets are owned directly by the investor. Indirect Investment involves buying and selling financial assets through an investment company. Investors who purchase shares of a particular portfolio managed by an investment company are purchasing an ownership interest in that portfolio of securities and are entitled to a pro rata share of the dividends, interest, and capital gains generated. Shareholders also pay a pro rata share of the company's expenses and its management fee, which are deducted from the portfolio's earnings as it flows back to the shareholders

Recently investors are looking beyond the traditional investments such as deposits with banks, fixed interest debentures, government securities and other financial institutions for opportunities that provide them with higher return on their capital. Their basic aim is to obtain a better than "average market" return from that investment, either by income, capital growth, or a mixture of both at a reasonable risk to their investment. Both direct and indirect investments essentially accomplish the same objective except where Investment Company stands between the investors and the portfolio of securities in the case of indirect investment.

2.3 Mutual Funds Industry in Ghana

According to the Securities Industry Law of Ghana a mutual fund is a public or external company incorporated solely to hold and manage securities or other financial assets. The company accepts funds from investors and uses those funds to buy a portfolio of securities and other financial assets and employs a professional fund manager to manage the investment. The company issues shares which represent pro-rata share of the pool of fund assets to investors. Mutual fund in Ghana may either be open-ended or closed-ended.

2.3.1 Open-ended funds

Open-ended investment companies popularly known as mutual funds are the most popular type of managed companies and continue to sell shares to investors after the initial sale of shares that starts the fund. Mutual funds are collective investment schemes that are mostly managed by professionals for their unit holders. These are funds which stand ready to repurchase their shares from the holders in any quantity and whenever the unit so holder desires. In addition they sell shares in any quantity to prospective investors at whatever time the investors determine. In other words, open-ended funds stand ready to issue new shares or redeem outstanding shares on a continuous basis. The number of shares of the funds, therefore, fluctuates as investors purchase or redeems shares. The price of a share in an open-ended fund is determined by the net asset value per share of the fund, where net asset value per share refers to the total value of the assets in the fund's portfolio, less any fund liabilities, divided by the number of shares outstanding.

A mutual fund companies pool money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some

combination of these investments. The combined holdings of the mutual fund are known as its portfolio. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate. The fund managers buy and sell large quantities of shares and get preferential treatment on trade commissions. Operating mutual funds requires professional knowledge and expertise and are regulated by the Securities and Exchange Commission for investor protection. This type of investment is very liquid since investors can redeem their investment upon request at the net asset value per share. Like corporations, mutual funds have boards of directors to oversee fund management and the boards appoint registered investment advisers for its portfolio management.

Professional fund managers have the expertise and resources to perform in-depth analysis for all investments made. This type of investment is well managed and diversified to reduce risk and maximize return. In Ghana, Databank financial Services have different mutual funds like the Balanced Fund, Ark Fund, MFund, KiddiFund and EPACK amongst other well performing funds. National Trust Holding Company has the Horizon Fund; Gold Coast Securities has the Gold Fund. Mutual funds raise money continuously without limit to either the number of investors or the number of shares issued. Through the continuous offering of shares without limit, the fund obtains new capital to invest on each trading day; the mutual fund stands ready to buy back shares from an investor who wants to sell it to have more liquidity or cash. Both open-end and close-end schemes have professional fund managers who buy and sell securities periodically in order to achieve their objectives.

2.3.2 Closed-ended funds

These are funds which issue a fixed number of shares and do not stand ready to repurchase their shares from their shareholders when they decide to sell them. The Securities Industry (Amendment) Act 2000 (Act 590) requires that closed ended funds be listed on an organized exchange in order to provide liquidity to the shareholders. These shares are traded at prices determined by the laws of supply and demand.

2.3.3 A Unit Trust

A unit trust is an arrangement whereby investors' funds are pooled together and used to invest in a portfolio of securities and other financial assets, with the beneficial interest in the assets of the trust divided into units. The funds are managed by a professional manager. A unit trust is constituted by a document known as the Trust Deed. Under the Securities Industry (Amendment) Act, (Act 590) unit trusts are open ended funds and their managers stand ready to issue new units or redeem outstanding units on a continuous basis. Home Finance Company Limited (HFC) for instance operates a unit trust that deals in bonds

2.4 Potential Advantages for Investing in Mutual Funds.

Mutual funds provide investors with professional money management, asset liquidity and the benefit of diversification in an attempt to gain market share. The fund managers are professionals with adequate knowledge and information on the sector where investments are proposed to be made. As professionals, they are able to properly plan the timing for acquisition and subsequent disposal of these investments. The sole aim of fund managers is to invest in companies when their shares are 'underpriced' and to dispose of those shares when the shares have reached their peak. Additionally, funds are regulated and

closely supervised by authorities such as SEC with a view to protecting the interest of the public at large and to prevent the offering or marketing of schemes with abusive clauses or which are set up with a view to dupe investors. The supervision by regulatory authorities does not guarantee that the capital amount invested in funds is secure.

Investing in mutual funds is less risky as compared to shares. Most often, returns on shares are higher and riskier but with collective investment schemes, your portfolio is well diversified and the risk of losing a portion of your money is very low. SEC encourages fund allocation of these schemes in the money market. With mutual funds, you can achieve a higher return with a relatively low risk. It is well diversified: Funds from unit holders are often invested in a wide range of listed companies across the spectrum of the economy. This spread of asset lowers the risk of the scheme and maximizes return.

There is a degree of transparency because the activities of SEC, external auditors and trustees compel fund managers to be transparent as much as possible to avoid fraud and ensure investor protection. Mutual funds in the Ghanaian market have no exit charges and the returns from mutual funds are tax exempt in Ghana. The performance of a fund is determined by its Net Asset Value. The price per share at which you can redeem shares is known as the fund's net asset value **(NAV)**. NAV is the current market value of all the fund's assets, minus liabilities, divided by the total number of outstanding shares.

$$NAV = \frac{Market\ value\ of\ assets - liabilities}{Shares\ outstanding}$$

Figure 2. 1: Determining the Share price of a Mutual Fund (Databank Balance Fund-2012)

HOW A FUND DETERMINES ITS SHARE PRICE

Market value of Fund's Assets		Fund's liabilities		Number of Outstanding Shares		Fund share price or Net Asset Value
(GH¢4,909,057)	_	(GH¢40,638)	÷	(25,242,811)	=	(GH¢0.19)

Source: 2012 Databank Balance Fund's Auditors Report.

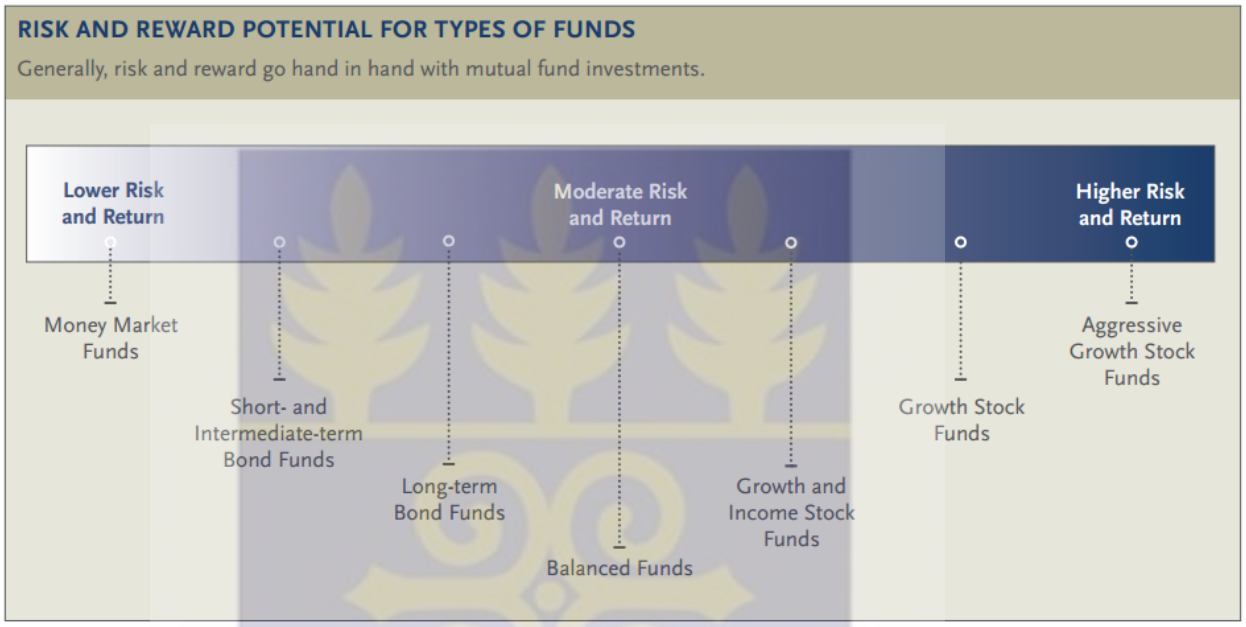
As shown in figure 2.1, in 2012 the market value of Databank Balance Fund (BFUND) is GH¢4,909,057 and Liabilities is GH¢40,638 with total number of outstanding shares of 25,242,811. Hence Net Asset Value is GH¢0.19. Thus, the unit price per share at which Databank will redeem its shares is GH¢0.19.

2.5 Different Types of Mutual Funds

There are three basic types of mutual funds—stock (also called equity), bond, and money market. Stock Mutual funds invest primarily in shares of stock issued by U.S. or foreign companies. Equity funds that invest in fast-growing companies are known as growth funds, while equity funds that invest only in companies of the same sector or region are known as specialty funds. Bond (Fixed-income) mutual funds invest primarily in bonds. Money market mutual funds invest mainly in short-term securities issued by U.S. government and its agencies, U.S. corporations, and state and local governments. Each mutual fund has different risks and rewards. Generally, the risk and return are positively

related. Thus the higher the potential return, the higher the risk of loss. Although some funds are less risky than others, all funds have some level of risk. Nevertheless, it is never possible to diversify away all risks.

Figure 2.2: Measuring Performance of Mutual Funds against Set Objectives.



As indicated on figure 2.2, Money market funds have relatively low risks, compared to other mutual funds and most other investments. By law, they can invest in only certain high-quality, short-term investments issued by the government, corporations, state and local governments. Investor losses have been rare, but they are possible. Historically the returns for money market funds have been lower than for either bond or stock funds.

Bond funds generally have higher risks than money market funds, largely because they typically pursue strategies aimed at producing higher yields. Unlike money market funds, the SEC's rules do not restrict bond funds to high-quality or short-term investments.

Because there are many different types of bonds, bond funds can vary dramatically in their risks and rewards.

Although a stock fund's value can rise and fall quickly (and dramatically) over the short term, historically stocks perform better over the long term than other types of investments including corporate bonds, government bonds, and treasury securities. Overall "market risk" poses the greatest potential danger for investors in stocks funds. Stock prices can fluctuate for a number of reasons such as the overall strength of the economy or demand for particular products or services. Not all stock funds are the same. For example, Growth funds focus on stocks that may not pay a regular dividend but have the potential for large capital gains and Income funds invest in stocks that pay regular dividends. Source: (Investment Company Institute, 1999 pg. 3)

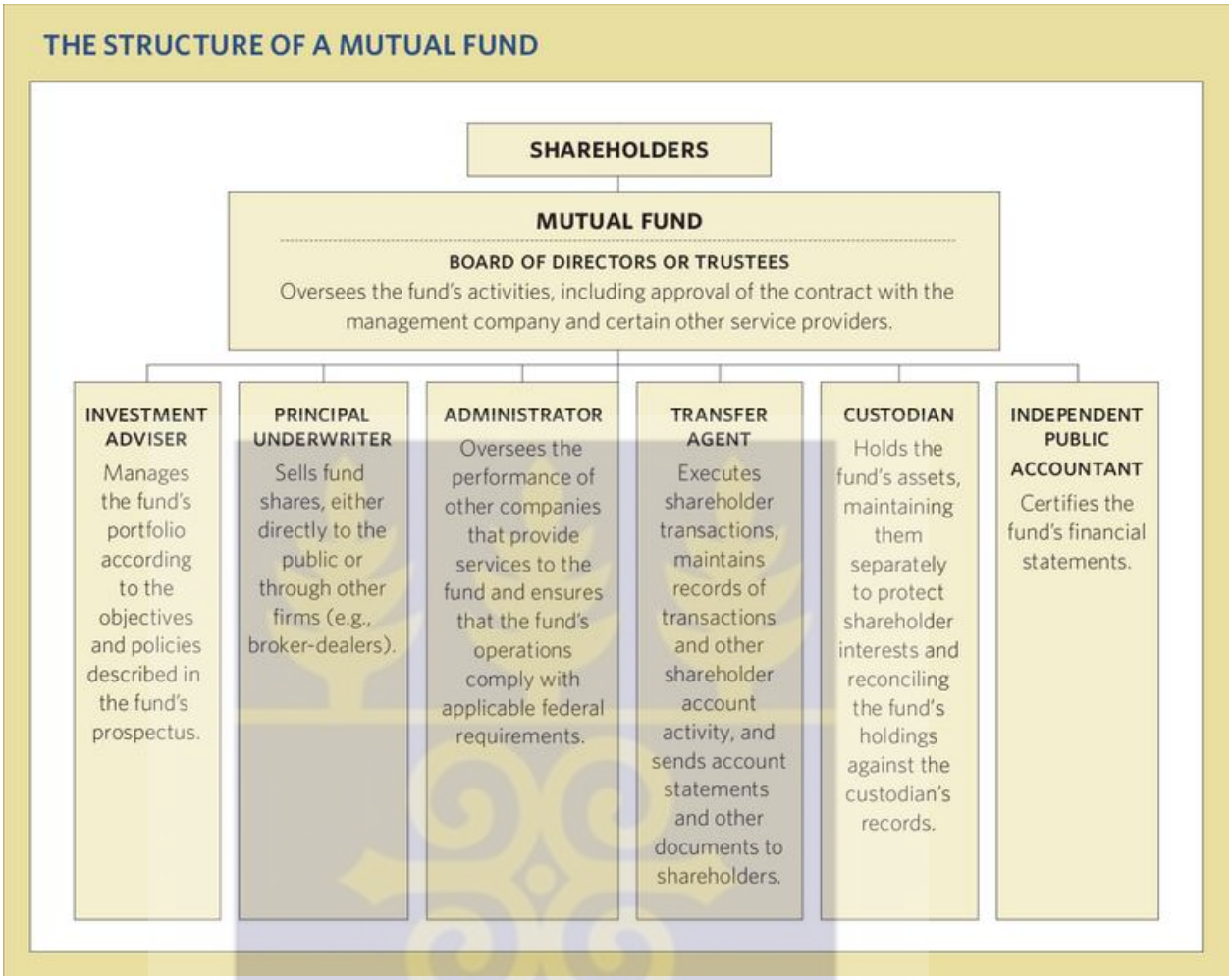
2.6 Type of Risks Associated with Mutual Funds

1. Market Risk: this type of risk is the volatility in the prices of securities due to changes in the financial market. For instance, investors of EPACK and HFC Equity trust made a lot of losses during 2008 and 2009 because of the effect of the credit crunch and the bearish nature of the Ghanaian capital market. The EPACK and HFC Equity trust have a higher allocation in the capital market and that reflected in the performance of the fund. Collective investment schemes have less risk and greater return than the treasury bills
2. Interest Rate risk: this risk is the effect of interest rate fluctuations that can affect the current income of the Trust. This kind of risk is inherent in schemes that have a greater portion of their allocation in fixed income securities.

3. Macroeconomic Instability: Poor economic management can have an adverse impact on the scheme's performance and the value of the fund as well.
4. Inflation Risk: the risk that the value of an investment will be eroded as inflation rates rise.
5. Credit Risk: the risk that an obligation will not be paid.
6. Liquidity Risk: the risk that an investor will not be able to buy or sell an investment quickly because buying and selling opportunities are limited.
7. Currency Risk: the risk that an investment transacted in a foreign currency will lose value due to fluctuations in the rate of exchange.
8. Political Risk: the risk that a foreign investment will lose value due to unfavourable political or regulatory changes in that country.

Unless you are familiar with the risks involved in an investment, you won't know what to expect from your fund's performance, and you won't know how to properly evaluate it.

Figure 2.3: Structure of Mutual funds



Source: A Guide to Understanding Mutual Funds

Figure 2.3 gives an indication of Structure of Mutual Funds which is a system used to define a hierarchy within mutual funds. It identifies each job, its function and where it reports to within the firm. This structure is developed to establish how mutual funds operates and assists a firm in obtaining its goals to allow for future growth. The structure is illustrated using an organizational chart.

2.7 Structure of Mutual funds

The structure of mutual fund often looks just like many financial institutions. However, the difference is the terminologies used to refer to the parties involved. The major parties who have investment interest in the mutual fund. They may also be institutional investors or pension fund companies who wish to diversify their portfolios. Another important party to mutual funds is the board of directors. Mutual funds are usually organized as corporations or business trusts, which are similar to corporations. Like any corporation, each fund has a board of directors to oversee the way the business operates and to ensure that corporate policies are followed. But a mutual fund is different from most other businesses and the composition and responsibilities of a fund's board of directors go far beyond those of boards of other corporations. These directors are either interested or independent. Interested directors typically are employees of the fund's investment adviser. Independent directors, in contrast, cannot have any significant relationship with the fund's adviser or underwriter, which allows them to provide an independent check on management. Their major responsibility is to oversee the fund's activities, including approval of the contract with the management company and certain other service providers. Each fund is required by regulation to maintain a custodian. The custodian holds the fund's assets; maintain them separately to protect shareholder interests.

2.8 The way forward in Mutual Fund Industry

In many parts of the world, collective investment schemes are becoming more and more popular in recent time and more accessible to the individual investor. Investors are thus looking beyond traditional investments for such opportunities that will give them higher return on their capital. However, it is very important for investors to realize that there is no guarantee that one particular scheme will give them an "above average return". They

need to carefully evaluate all facts concerning a particular scheme. Most investors are tempted into believing that a scheme will do well because it did well in the past and as such invest in such a scheme. It is not certain that a scheme will in future repeat its past performance. The share prices might have already reached their peak with no prospect for further significant growth. It is recommended that investors consider investing in funds when their share prices are not already at their peak by evaluating and analyzing growth prospects of the fund as opposed to just past performance.

2.9 Chapter Summary

In the last decade, mutual funds have gained significant prominence as alternative investment product in the Ghanaian economy. They have contributed significantly to the economic development particularly the Ghanaian financial Sector. Although, mutual funds have been significant investment avenue, the research community has given less attention to it. In Ghana, the expansion of the money markets sector in financial services and the extensive growth in non-bank financial services create enormous competition among fund managers.

To ensure the development of the financial system in Ghana, the Ghana stock exchange was established in 1990, under the Stock Exchange Act of 1979 (Act 384). In 1993, the Securities and Industries Law (PNDCL, 333) [SIL] was also passed as amended by the Securities Industries (Amendment) Act 2000 (Act 590). It provided for the creation of Securities and Exchange Commission (SEC) whose core value is to ensure investor confidence and protection. And then, Securities Regulatory Commission (SRC) to oversee the activities of the securities industry. The section 179 of the companies Act 1963,(Act 179) requires companies to have at least two directors as the means of

ensuring the practice of corporate governance. Corporate governance was subsequently strengthened by the establishment of SEC and GSE. The various regulatory authorities designed control framework for ensuring good corporate governance notably, the Security and Exchange Commission (SEC) code of best practice in Ghana.

CHAPTER THREE

LITERATURE REVIEW

3.1 Introduction

Cadbury committee introduced corporate governance and defined it as the system by which companies are directed and controlled. This was as a result of high profile worldwide corporate governance scandals in the United States of America and elsewhere in the late 1990s and early 2000s. For instance, corporate failures of recent times internationally are the market timing and late trading fraud scandals that hit Wall Street and corporate America centres on the mutual fund industry in 2003. These scandals were due to improper disclosure, creative accounting and conflict of interest between the management and the corporations. To avoid such misfortune, countries and their regulatory bodies have initiated codes on corporate governance which has resulted in a formalisation of rules and norms. These rules and norms have helped in shaping the present corporate governance structures across the globe. For example, the new guidelines on best practices for corporate governance issued by the Securities and Exchange Commission of Ghana in 2010 highlight the mechanism that corporations are expected to comply with in helping to foster investor confidence and goodwill.

The Sarbanes–Oxley, SOX, Act of 2002, a United States federal law sets new or enhanced standards for all U.S. public company boards, management and public accounting firms. This set of rules for compliance by corporations has been accepted as benchmark for Corporate Governance. The Act aims at ensuring disclosure practices intended to protect shareholders and the general public. Any country whose rules and regulations comply with SOX, such as Ghana is fully grounded in some form of corporate governance because of the enactment of the Company's Act and the Security

and Exchange Commission (SEC) codes. OECD (2004) also laid down the principles of corporate governance and stated emphatically that institutional investors should act in a fiduciary capacity and disclose their overall corporate governance and voting policies with respect to their investments, including the procedures that they have in place for exercising their voting rights. They further suggested that institutional investors disclose as to how they manage material conflicts of interest that may affect the exercise of key ownership rights regarding their investment.

3.2 Corporate Governance

OECD (2004) defines corporate governance as the system by which business corporations are directed and controlled. The Corporate Governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders and spells out the rules and procedures for making decisions in corporate affairs. By doing this, it also provides the structure by which the company objectives are set and the means of attaining those objectives and monitoring performance. Additionally, Corporate governance could be defined as 'the application of a set of powerful micro-policy instruments in an organisation to ensure an efficient and effective use of resources in achieving the main objectives of its capital providers, succeed in the competitive market, as well as maximizing its positive influence on other stakeholders and at the same time, minimizing its negative impacts on them, (Castellini & Agyemang, 2012). According to Lamm (2010), corporate governance is the use of formality, thoroughness and transparency to an amalgamated structure of corporate policy in order to ensure that only prudent risks are taken by the corporate organisation to achieve shareholder value as well as to succeed in the market. Agyemang *et al.* (2013) contended that corporate governance is represented by laid down structures and procedures to mitigate the level of

agency costs in a corporate organisation. Considering stakeholder-oriented view of corporate governance, Solomon (2007), redefined corporate governance broadly as the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity.

Corporate governance systems are mechanisms for establishing corporate accountability and objectivity of management decisions in terms of financial reporting with the ultimate aim of aligning the interests of management and shareholders, and also enhance transparency as assurances of the quality of financial reporting within an organization. Mollah *et al.* (2012) for instance, define corporate governance mechanisms as a market, institution and legal settings that protect outside investors from opportunistic behavior of managers or controlling shareholders. In the absence of such protection, asymmetries of information and difficulties of monitoring suffered by outside investors enable managers to misallocate and expropriate corporate resources, often at the expense of minority investors and the long-term firm performance. Shleifer and Vishny (1997) also considered corporate governance mechanisms as economic and legal institutions that can be altered through the political process – sometimes for the better.

The regulatory framework for an effective corporate governance practice is contained in Companies codes, Securities Industry Laws, listing regulations of Stock Exchanges, and accounting standards, all help in ensuring effective corporate governance systems. According to Agyemang *et al.* (2013) there is certainty that corporate governance guidelines promote effective and efficient allocation of resources, help corporate organisations in attracting capital at low cost and assist corporate organisations in

maximising their performance as well as their capability in meeting community needs. They also contended that, corporate governance is represented by laid down structures and procedures to mitigate the level of agency costs in a corporate organization. It could be argued that corporate governance mechanisms focus primarily on accountability and transparency, where accountability has been interpreted only as corporate accountability to shareholders. This focus is centred on internal company mechanisms relating to boards and board performance with mechanisms of accountability such as audit committees, internal audit and risk management (Niamh & Jill, 2008).

3.3 Corporate Governance Theories

The main sets of ideas that have each played an important part in shaping Corporate governance system are; agency theory, resource dependence and stewardship theories, stakeholder theory and managerialism theory. It is commonly the case, that individuals involved in corporate governance apply what they believe is common sense, when in reality they draw sub-consciously on long-established economic theory and assumptions that are challengeable. Probably the most influential one in this context is Agency Theory, which has helped to shape recent codes of practice in governance.

3.3.1 Agency Theory

The natures of corporations are characterized with separation of ownership and control. The shareholders are the principals and the managers are the agents working on behalf of, and for the interests of, the principals. Berle and Means,(1932) were the first to point the distinctive feature of "separation of ownership and control" in publicly held corporations of USA. This idea was later expanded and developed into Agency Theory by Jensen and Meckling in 1976. The core issue of agency theory pertaining to corporate

governance is the agency problem (agents' self-interest behaviour) in principal-agent relationship. A principal-agent relationship is where the principals (shareholders) delegate responsibility to the agents (directors and managers) who are charged to run the affairs of corporation on behalf of the principal. It is assumed that individuals always aim at maximizing their own utility; hence, managers as agents will not always act in the best interests of the shareholders and may pursue their own interest at the expense of the shareholders.

According to Bonazzi and Islam (2007), the agency theory, show that the principals (the shareholders) can assure themselves that the agent will make the optimal decisions only if appropriate incentives are given and only if the agent is monitored. Incentives include such things as stock options, bonuses and prerequisites which are directly related to how well the results of management's decisions serve the interests of shareholders. Monitoring consists of bonding the agent, systematic reviews of management prerequisites, financial audits, and placing specific limits on management decisions. These involve costs, which are an inevitable result of the separation of corporate ownership and control. Such costs are not necessarily bad for shareholders, but the monitoring activity they cover needs to be efficient. They contended that in agency theory, a well-developed market for corporate controls is assumed to be non-existent, thus leading to market failures, non-existence of markets, moral hazards, asymmetric information, incomplete contracts and adverse selection among others.

Various governance mechanisms have been advocated which include monitoring by financial institutions, prudent market competition, executive compensation, debt, developing an effective board of directors, markets for corporate control, and

concentrated holdings. Developing an effective board of directors remains an important and feasible option for an optimal corporate governance mechanism. The main issues are that agents or managers may not always act in the best interest of shareholders when the control of a company is separate from its ownership. Simon (1959), proclaimed that managers might be "satisfiers" rather than "maximisers," meaning that they strive to obtain an acceptable level of growth because they are more concerned with perpetuating their own existence than with maximizing the value of the firm to its shareholders. But shareholders delegate decision-making authority to the agent (CEO) with the expectation that the agent will act in their best interest. Delegating for efficient decision making and establishing organisational control to reduce the problem of agency is the solution proposed by Fama *et al.* (1983) and Fama and Jensen (1983), they argued that the primary monitoring of managers owners comes from managerial labour market which operates at an individual level suggesting that poor executive performance will threaten an individual's future employment potential whilst good performance will have positive reputational and hence career-enhancing effects.

It is argued that management control of a large corporation is completely separate from its security ownership. Efficient capital markets provide signals about the value of a company's securities and thus about the performance of its managers. If the managerial labour market is competitive both within and outside the firm, it will tend to discipline the manager. Therefore, the signals given by changes in the total market value of the firm's securities become very important. Kaplan and Reishus (1990) found evidence consistent with this argument that directors of poorly performing firms, who therefore may be perceived to have done a poor job overseeing management, are less likely to

become directors at other firms. On the other hand, reputational concerns do not correct all agency problems and can, in fact, create new ones.

3.3.2 Stewardship theory

The stewardship theory, perceived the nature of senior executives as agents of corporations differently from the agency theory. While the agency theory is built on the assumption of self-interest human behaviour to assert that managers are agents and therefore cannot be trusted and should be fully monitored, the Stewardship theory refutes the assumption that executive aims and motives are opposed to those of the shareholders. It insists they all have an interest in maximizing the long-term wealth of a company and are therefore already well aligned and that managers are good stewards of a corporation. Stewardship theorists based their argument on the traditional legal view of the corporation as a legal entity in which directors have fiduciary duties to the shareholders of which the managers are actually acting as stewards to serve the shareholders' interests with utmost good faith and diligently work to achieve a high level of corporate profit and shareholder returns.

According to stewardship theorists managers have varied motives beyond a simple self-interest. They stand for values such as achievements, recognition and responsibility needs, the intrinsic satisfaction and pleasure of successful performance, respect for authority, social status, and work ethics. Thus the separation of ownership and control is not a goal and does not constitute conflict of interest but actually enhances the development of managerial profession, very useful for corporate performance and shareholder wealth maximization. It is therefore necessary to empower managers to exercise unencumbered authority and responsibility for the maximization of corporate

profits and shareholders' value. Stewardship theorists also contend that superior corporate performance is associated with the majority of inside directors because they ensure more effective and efficient decision- making and also contribute to maximize profits for shareholders (Kiel & Nicholson, 2003). Consequently, O'Connell (2007) called for more stewardship-related research in financial reporting on what he calls "stewardship reporting."

3.3.3 The Stakeholder Theory

The stakeholder theory is one of the most significant issues about corporate governance and performance developed by Ed Freeman in the 1980s. Stakeholder theory challenges agency assumptions about the primacy of shareholder interests and argues that a company should be managed in the interests of all its stakeholders including a range of other direct and indirect interests. Freeman and Reed (1983) asserted that the corporation is responsible to other groups in addition to its shareholders that also have a stake in the actions of the corporation. He contended that without their interest the corporation may cease to exist considering the support and the contributions made by these groups. The proposed system of corporate governance rules that the interests of multiple stakeholders have to be considered and adequately balanced when corporate decisions are made. In this system, the interest of the enterprise provides the ultimate criterion to evaluate corporate decisions rather than the interest of one single group of constituencies. Corporate decisions have accordingly served the interest of the enterprise and ensure its sustainable creation of value. This requires a principle based balancing of competing interests when the stakes of diverse constituencies collide (Till, 2010). This means that firms must be more responsible and perform their ethical role in their societies focused upon the vision of ''corporate citizenship''.

According to Mallin (2007), the Stakeholder theory takes account of a wider group of constituents rather than focusing on shareholders. For instance, academics such as Margaret Blair (1995) has argued that employees are key stakeholders just as much as shareholders are 'residual risk-takers' in a firm so must have a voice in the governance of the firm But stakeholder theory insist that other groups like suppliers and customers have direct interests, the local communities, the environment as well as society at large have legitimate indirect interests.

3.3.4 Resource dependence theory

According to Ferraro and College (1996), Dependency theory attempts to explain the present underdeveloped state of many nations in the world by examining the patterns of interactions among nations and by arguing that inequality among nations is an intrinsic part of those interactions. Resource dependence ideas were originally developed in the late 1970s by Pfeffer and Salancik (1978), they argued that boards serve to link the corporation to other external organizations in order to address environmental dependencies. These scholars suggested four primary benefits for the external linkages which include the provision of resources such as information and expertise, creation of channels of communication with constituents of importance to the firm, provision of commitments of support from important organizations or groups in the external environment; and creation of legitimacy for the firm in the external environment.

Their key contribution is the observation that the board, and in particular the constitution of the non-executive element of a board, can provide the firm with a vital set of resources. Contributing to the above, Hilman and Dalziel (2003) suggested that, resources can take a variety of forms each of which can be argued to add to the 'capital'

of a company. When an organization appoints an individual to a board, it expects that the individual will come to support the organization, will concern himself with its problems, will variably present it to others, and will try to aid it Pfeffer and Salancik (1978). Seeing the board as a source of resources for a company opens up a very different way to think about the board's role in creating high performance. Wen *et al.* (2002) found a significantly negative relationship between number of outside directors on the board and leverage and argued that outside directors tend to monitor managers more actively, causing these managers to adopt lower leverage for getting improved performance results. Also, firms with higher proportion of outside directors tend to pursue low financial leverage with a high market value of equity. On the contrary, Jensen (1986) and Berger *et al.* (1997) argue that firms with higher leverage rather have relatively more outside directors, while firms with low percentage of outside directors experience lower leverage.

3.3.5 Managerialism Theory

The concept of the corporation as a legal entity separate from its members explains why power needs not be dispersed among the entire membership. The reality of Managerialist or institutionalist theory is that large corporations are run by professional management and exert significant economic and social influence and endeavour to formulate policies to ensure that managers of firms act in the best interest of shareholders. The managerialist theory of corporation emphasises corporate management and power that it wields. However, critics argue that managers oftentimes exercise power without accountability to shareholders in public companies, shareholders are therefore unable to monitor managers effectively in their corporations so that legal intervention can be used to protect the interest of shareholders.

In the managerialism theory accountability is secured by imposition of mandatory legal duties upon managers and other officers. The 2010 SEC code states the responsibilities of board of directors. The code clearly stipulates that the main function of the board of a company is to make sure that the firm is well-administered in order to safeguard and improve the interests of shareholders and to fulfil the corporation's responsibilities to its equity holders, the industry in which it operates, and the legal and regulatory framework. Also, the board members are to be abreast with the tenets of good corporate governance in Ghana. Furthermore, section I (3) of the 2010 SEC code stipulates the principal duties of the board of directors to include: ensuring strategic guidance of the corporate organisation in keeping up with its business goals; supervising the management and conduct of the corporate organisation; identifying risk and implementing strategies to manage it; succession planning and the appointment, training, compensation and replacement of top management; supervising internal control systems; and maintenance of the corporate entity's communication and information dissemination policy/programme (Ghana, 2010). Section (2) of the code also spells out the basic responsibility of the board; that it has to ensure that good corporate governance prevails in the corporate organisation. In that case, the implication is that the board must not only ensure that they operate in conformity with the tenets of effective corporate governance in their day to day operations, but must also make sure that the tenets of effective corporate governance are in operation throughout the corporate organisation (Agyemang *et al*.2013).

Managerial labour markets are complemented by director labour markets, where those most vigilant and talented at finding worthy managers to promote are rewarded (Fama & Jensen, 1983). The market for corporate control must check management of corporations

since any inefficiency on the part of management will lower share prices thereby creating an opportunity for raiders to take over the company and install competent managers who will increase share prices (Manne, 1965). The fact is that we dwell in the best of all possible worlds, where only fit firms survive a Darwinian competition for capital (Easterbrook & Fischel, 1991).

3.4 Corporate Governance Models

This section presents a brief review of the main models of corporate governance which are categorised into either the shareholding camp or the stakeholding camp according to their mutually exclusive propositions and assertions. The models are; finance, model, myopic model and stakeholder model.

3.4.1 The Finance Model.

The primary aim of corporate governance is to ensure that suppliers of capital get a return on their investments and as a result increasing profits, and for business to meet its social responsibilities. The focus on stockholders and shareholders hence referred to as shareholder-oriented governance. The two main models of shareholder-oriented governance are the principal-agent or finance model and the myopic market model. According to Coelho *et al.* (2003), the principal-agent model (finance model) assumes that the social purpose of corporations is to maximise shareholders' wealth. Economists such as Blair considered it as market based governance as such referred to it as the 'efficient market model'.

The main problem of corporate governance with regards to finance model is the self - interested managerial behaviour in the principal-agent relationship. Agency problems

arise when the agent does not act in utmost good faith or share the principal's objectives. Berle and Means (1932) asserted that the separation of ownership and control increases the power of professional managers and leaves them free to pursue their own aims and serve their own interests at the expense of shareholders. The first problem in agency relationship is that it is difficult or expensive for the principal to verify what the agent is actually doing; the principal cannot verify that the agent has behaved appropriately. The second problem is that the principal and the agent may prefer different actions because of the different attitudes toward risk Eisenhardt (1989). Jensen and Meckling (1976) suggested that these two problems bring about ''agency cost'' where the principals attempt to ensure that agents act in principals' interests. To solve the problems associated with principal- agency relationship, agency theory must determine the most efficient contract governing the principal-agent relationship and an optimal incentive scheme to align the behaviour of the managers with the interest of owners.

3.4.2 The Myopic Market Model

The myopic market model shares a common view with the principal-agent model that the corporation should serve the shareholders' interests only, but criticizes the Anglo-American model of corporate governance as fundamentally concern with short-term gains in return, profit, stock price and other performance measures due to huge market pressures. The myopic market model argues that the current corporate governance systems encourage managers to focus on short-term performance by sacrificing long-term value and competitiveness of the corporation (Charkham, 1994 ; Moreland, 1995). However, the financial markets often force managers to behave in a way divergent from the maximization of long-term wealth for shareholders (Blair, 1995). For instance,

managers are forced to pay more attention to short-term earning data and forecasts and less attention to long-term investment spending such as research and development.

The myopic market view contends that corporate governance reform should provide an environment in which shareholders and managers are encouraged to share long-term performance horizons. Shareholders' loyalty and voice should increase, whereas the ease of shareholders' exit should reduce. Policy proposals for the reform include the encouragement of ''relationship investing'' to lock financial institutions into long-term positions, restrictions on the takeover process and on voting rights for short-term shareholders, and the empowerment of other groups such as employees and suppliers that have long-term relationships with the firm (Keasey *et al.*, 1997).

3.4.3 The Stakeholder Model

The fundamental issue of stakeholder model is the consideration of the well-being of other groups such as employees, suppliers, customers and the environment, who have a long-term association with the firm and therefore have a ''stake'' in the long-term success of the corporation. Freeman (1984) defined stakeholders as ''any group or individual who can affect or is affected by the achievement of the firm. Freeman tried to explain the relationship between the company and its external environment in conjunction with its behaviour within this environment. The stakeholder model serves as a road map in which the corporation is positioned at the centre and interacts with the surrounding stakeholders.

Phillips *et al.* (2010), assumed organizations engage in relationships with many groups that either influence or are influenced by them, stakeholders in accordance with the

Freeman (1984) assumptions. Clarkson (1995), grouped stakeholders into two: the primary shareholders are those which have formal or official contractual relationships with the company, such as clients, suppliers, employees, shareholders, and management among others, without them the corporation cannot survive and succeed.

The secondary stakeholders are those not holding such contracts, such as governments, the local community, the media, the courts, special interest groups and the general public, the society in general. In this way, a company is conceived of as a network of explicit and implicit relationships spanning both the internal and external environments. Emerson *et al.* (2012) aims to develop a new model of stakeholder classification and a model for the relationship between the organization and its respective stakeholders and proposes six stakeholder types (regulator, controller, partner, passive, dependent and non-stakeholder) which help organizations managing the relationships with their stakeholders.

The efficiency of the stakeholder follows that firms developing a reputation for the ethical treatment of suppliers, customers and employees are able to build up trust relations, which support profitable investments and mutually beneficial exchanges. This is because ethical behaviour reduces the costs of social association. If firms build a reputation for ethical collaborations over a long period, they are able to substitute co-operative outcomes for unsatisfactory cheating ones.

Hence, they are better able to pursue competitive advantage through both internal and external relationships (Jones, 1995). The second argument for the efficiency of this approach draws on Japan and Germany as examples of successful industrial societies in

which extensive stakeholder involvement with the firm is pervasive, and typically, corporate goals are defined more widely than shareholders' profits.

In both countries, the corporation is viewed as an enduring social institution, with personality, character and aspirations of its own, with a proper public interest – the interests of a wide range of stakeholder groups, and with public responsibilities (Kay & Silberston, 1995). In both countries, suppliers and major customers are linked to the corporation through interlocking shareholdings and cross-directorships. The interests of labour receive particular safeguards in decision-making, which include the German co-determination system, and the Japanese lifetime employment guarantee, consumers-based decision making (Keasey et al., 1997; Letza *et al*, 2008). The fundamental value of human rights and morality are the guiding principle of stakeholder theory. 'The standard of a corporation's usefulness is not whether it creates individual wealth but whether it helps society gain a greater sense of the meaning of community by honouring individual dignity and promoting overall welfare' (Sullivan & Conlon, 1997).

3.5 Board Governance and Performance

Several studies have been done in both developed and developing countries concerning the relationship between corporate governance and fund performance with mixed results. For example, (Jensen, 1993; Jay *et al*., 2007; Praveen, 2008; Carl *et al.*, 2011; and Krzysztof & Kowalewski, 2011). Praveen (2008) examined three research issues on corporate governance and fund performance. First of all they, investigated whether firms' corporate governance mechanisms, affect the foreign investment decisions of fund managers. Secondly, they studied the sensitivity of fund managers to different forms of corporate governance mechanisms they also analyzed the preferences of fund managers

to distinct governance attributes that relate to board, audit, shareholder rights, and compensation and ownership. They also investigated whether funds' governance mechanism plays a role in determining their preferences for corporate governance mechanisms. Finally, they found that mutual funds do show preference for better corporate mechanism and tilt their portfolio weights towards firms with better corporate governance.

Foreign fund managers are sensitive to governance attributes related to board characteristics and independence of auditors and do not care for attributes related to shareholder rights, and directors' compensation and ownership. Their results suggested that funds from stronger investor protection countries have greater preferences towards corporate governance mechanisms. Thus, this study will examine the relationship between corporate governance mechanisms like, audit committee , board size and board composition gender diversity and meeting frequency and firm specific variables such as fund age and fund size with the firm's performance specifically mutual funds registered with SEC in Ghana.

3.5.1 Board Size and Firm Performance.

From governance literature, Firms choose board size to balance advisory needs with the costs of decision-making in large corporations. However, Jensen (1993) argues that as board size increases, boards become less effective at monitoring management because of free-riding problems amongst directors and increased decision-making time. The existing studies of fund governance focused on the board of directors and concluded that boards of smaller size and higher independence are effective monitors. They negotiate lower fees for shareholders Tufano and Sevick (1997) and are more likely to approve open-

ending decision of closed-end funds. Del Guercio, Dann and Partch (2002) and Uzun, Szewczyk and Varma (2004), found that larger size, lower independence, and higher greyness of the board are associated with a higher likelihood of corporate fraud. Ding & Wermers (2005) have found that when funds have larger boards and higher proportion of outside directors, there is larger possibility of replacement of poor performing managers.

In the relevant literature, many studies examined the relationship between board size and firm performance, the findings reported mixed results. In examining these relationships, Wen *et al.* (2002) and Anderson *et al.* (2004) reported positive relationship between board size and firm performance respectively. Also, Bopkin and Isshaq (2009) documented that Board size is positively and statistically significantly related to share price. Positive relationship between the size of the board of directors and firm performance suggest large boards lead to a better business performance due to the wide variety of skills present for effective decision making and monitoring of management. Jensen and Meckling (1976) argued that a bigger size board of directors may improve the companies' board effectiveness and support the management in reducing agency cost that results from poor management and consequently leads to better financial results. Intuitively, larger boards are expected to bring their expertise for effective and efficient decisions which will lead to better firm performance owing to increase in board monitoring capacity but may be confronted with poor communication and slow decision making process. These are in constrast with Kumar and Singh (2013), who found that there is a negative relationship between board size with firm value.

Similarly, Shakir (2008), found a negative relationship between board size and firm performance which supported the conclusion of Jensen (1993), that for a firm to be

effective in its monitoring, it should have a relatively small board of directors. Reducing agency cost that results from poor management and consequently leads to better financial results. Hence a firm with strong governance systems does not need larger board size in order to perform. Ex ante there is no reason to believe that similar arguments should not hold for mutual funds.

H_1: The size of the board is negatively related to firm performance.

3.5.2 Board Composition and Firm Performance

The composition of the board helps to mitigate the principal-agent problem. But the main issue is whether directors should be employees or affiliated with the firm (inside directors) or outsiders (outside directors). The involvements of outside directors enhance the ability of the firm to protect itself against threats from the environment and align the firm's resources for greater advantage. However, Fama and Jensen (1983) argued that boards of mutual funds are irrelevant because of investors monitoring. It implies a substitution effect between the external and internal monitoring: boards should be more effective when market monitoring is weak. Abdullah and Parvez (2012), found board composition to be negative and insignificant determinants of the firm performance. John and Senbet (1998) argued that boards of directors are seen to be more independent as the proportion of their non-executive directors increases.

However, researches on the impact of board composition have grown significantly but with inconclusive results. The study by Krzysztof and Kowalewski (2011), argued that both the composition of the board and the motivation of the board members are important in explaining pension fund performance. Jay WellMan and Zhou (2005) studied the relationship between mutual fund governance and mutual fund performance.

Using the of the Morningstar Stewardship Grades 2004, they found that the Board Quality variable showed the most explanatory power. Jay and Silberston (2007) again argued that Board Quality variables showed the most explanatory power which they contended to broadly support the main conclusion of Gompers *et al.* (2003) that corporate governance significantly affects performance. In consistence with this, Chen and Haung (2011) suggested that, board quality which is in the center stage of the proposed SEC mutual fund regulation bears little relationship with contemporaneous fund performance, yet is strongly related to funds' future performance. However, some studies suggest that collusion exists between the board and management. For instance, Tufano and Sevick (1997) found that well-paid independent directors approve higher fees for fund sponsors. The endogeneity problem of board composition is reduced in this paper when the board and management are controlled for in one setting. Paul (2009) had studied the disclosure transparency of socially responsible mutual funds. By using a sample of 45 Canadian mutual fund managers managing over 1,650 individual funds, this study found that disclosure transparency increased when mutual fund managers have a greater commitment to providing socially responsible mutual funds performance.

Some researchers (such as Forsberg, 1989; Hermalin & Weisbach, 1991; Bhagat and Black, 2002) found that there is no significant relationship. However, Forsberg (1989), and Hermalin and Weisbach (1991), found no significant relationship between the proportion of outside directors and various performance measures.

Bhagat and Black (2002) also found that, there is no relation between the degree of board independence and four measures of firm performance. From a different perspective, Agrawal and Knoeber (1996), documented that those outsiders on the board affect firm

performance negatively even after accounting for the interdependence among various corporate control mechanisms. Yun and Hyun-Han (2014), suggested that adding outside directors to the board may not achieve improvement in governance practices by itself, especially in jurisdictions where ownership is highly concentrated and the outside directors' labour market may not be well developed. On the other hand, other studies found that firms with board of directors dominated by outsiders are able to perform better and found a positive association between the proportion of outside board members and performance. Moreover, Rosenstein and Wyatt (1990) documented a positive stock price reaction to the appointment of outside directors even when outside directors already constitute a majority, suggesting that outside directors provide expertise beyond monitoring service. Arguably, Composition of board of directors represents the key issues towards addressing opportunistic behaviour from managers within the agency theory. It is argued that this reduces conflict of interest and ensures a board's independence in monitoring and passing fair and unbiased judgments on management.

H_2: A higher proportion of outside directors lead positive effect on performance.

3.5.3 Frequency of Board Meetings

Frequency of Board Meetings is measured as the total number of board meetings in a year. Regular meetings provide an avenue for board members to review the organization's financial situation and program activities, establish and monitor compliance with key organizational policies and procedures, and address issues that affect the organization's ability to fulfill its mission. For example**, (**Lipton & Lorsch, 1992) and (Jensen 1993; Vefeas 1999) debate on corporate board meetings bears testimony to the view that the frequency of board meetings may affect corporate performance.

In the relevant literature, even though there have been many studies that examined the link between the frequency of meetings and firm performance, the findings turned up to be inconclusive. Collins, Ntim and Osei (2011), investigated the impact of corporate board meetings on corporate performance for a sample of 169 listed corporations from 2002 to 2007 in South Africa (SA). Their findings suggested a statistically significant and positive association between the frequency of corporate board meetings and corporate performance, implying that SA boards that meet more frequently tend to generate higher financial performance. Davidson III *et al.* (1998) also found a positive relationship between corporate financial performance and number of meetings of the Board. Basil Al-Najjar (2012), investigated the determinants of the frequency of board meetings as an index for board activity including their monitoring role and concluded that board size and structure are positively related to the frequency of board meetings. In addition, he detected a negative impact of audit committee diligence on the frequency of board meetings. The study found no evidence that the frequency of board meetings are reduced when there is a CEO duality. In constrast, Nikos Vafeas (1999) found that annual number of board meetings is inversely related to firm value. This result is driven by increases in board activity following share price declines. However, an important measure of corporate boards' monitoring power and effectiveness is the frequency of board meetings. Moreover, theoretically, there is a consensus that corporate board meetings play an important role in the governance, conformance and performance of companies (Lipton & Lorsch 1992; Jensen 1993).

H3: There is a positive relationship between board meeting and firm performance.

3.5.4 Gender Diversity and performance

Diversity is an important issue in corporate governance which is defined as the range of ethnic and gender representation on boards of directors (Erhardt *et al.*, 2003). However, ethnic groups are not generalized across all countries hence women play a very important role in this regard. For this reason, the Higgs Report (2003) stressed the importance of incorporating more women as board of directors, especially when there is little or no female representation. Different researchers found different relationship between gender diversity and firm performance, based on different researches and different theories, there are positive, negative and no relationship between gender diversity and firm performance. For example, Taghizadeh and Saremi (2013) examined the impact of gender diversity on firm performance on Malaysian Public Listed Firm.

The results of the study indicated that ROE is influenced by percentage of female directors on board of directors which suggest that, high percentage of female directors on board of directors increase ROE. Jiwook and Dobbin (2010) explored how women directors affect profits, stock performance, and institutional shareholding and found that board diversity has no effect on profits, but a negative effect on stock price. Moreover, there is a significant positive effect for block holding public pension funds, but no effect for non-block holding public pensions, whereas the average non-block holding investor responds negatively to an increase in board diversity. Marinova *et al.* (2010) examined whether board gender diversity has a positive effect on firm performance, based on evidence from the Netherlands and Denmark. Their findings indicated that there is no effect of board gender diversity on firm performance.

According to Gallego-Álvarez *et al.* (2009), diversity may lead to an improvement in monitoring management, due to greater boardroom independence and more complex and exhaustive decision-making processes. However, at the same time as gender diversity increases creativity, more complexity in decision-making is generated, which will imply potential conflicts and a lower degree of cohesion. They contended that demand for gender diversity remains quite controversial. Moreover, based on the theoretical perspective the following hypothesis has been formulated:

H4: There is a positive relationship between gender diversity and firm performance

3.5.5 Risk

As an initial step in the process of investment decision making, funds endeavour to attract prospective and maintain potential investors by referring to their past performance even though past performance does not guarantee or even directly relate to future performance. Investors are interested not only in funds' returns but also in risks taken to achieve those returns. We can think of risk as the uncertainty of the expected return, and uncertainty is generally equated with variability. Investors demand and receive higher returns with increased variability, suggesting that variability and risk are related, (Simons, 1998).

Several studies have investigated the predictability of funds returns (Trainor Jr, 2010; Swinkels & Rzezniczak 2009; Athanasios *et al*, 2005; Otten & Bams 2002) with mixed results. For instance, Trainor Jr (2010) analyzed the risk-adjusted performance of individual mutual funds that investors use to invest in the high yield debt market asset class and posits that high yield bond funds significantly underperform the CSFB high

yield index by 1.6 per cent on an annualized basis which is 0.5 per cent more than the average expense ratio.

Individually, funds do exhibit performance persistence and top ranked funds in one period outperform bottom ranked funds over the proceeding period by an average of 2.7 percent annually. However, except for the expense ratio, commonly used explanatory variables do not appear useful for explaining risk-adjusted excess return differences across funds leaving 86 percent of the variation unexplained. Athanasios *et al.* (2005) results indicated a positive relation between risk and return.

Swinkels and Rzezniczak (2009) found that, for each of the three categories, equity, balanced, and bond funds, the paper found positive, but insignificant selectivity skill of the mutual fund managers. No evidence is found of bond on equity market timing skills in the sample.

H_5: Risk is positively related to performance.

3.6 Overview of Sharpe Ratio

The Sharpe ratio, is an important risk-adjusted performance measure used by Sharpe (1966) to evaluate mutual fund performance. Sharpe (1966) referred to the measure as the "Reward-to-Variability" ratio. The Sharpe ratio measures the degree to which a portfolio is able to yield a return in excess of the risk-free return to cash, per unit of risk. Hence, measured by subtracting the risk-free rate of return from the rate of return for an investment to get "excess return" . The Sharpe ratio is then calculated by dividing the excess return by the standard deviation of the return. The advantage of using the Sharpe

ratio for evaluating portfolios is that it does not depend on the choice of a benchmark (market index).

Jagric *et al*.(2007) ranked Slovenian mutual funds and revealed that all analyzed funds outperformed the market on a risk-adjusted basis and that funds were well diversified. Poonam (2013) studied on performance evaluation of selected mutual funds of India based on risk-return relationship models and measures Sharpe ratio. The study found that returns of all funds are more than market index returns, but not high. Prajapati and Patel (2012) studied on performance evaluation of mutual fund schemes of Indian companies. Using Sharpe Measure, the study found that most of the mutual funds have given positive return during 2007 to 2011. Qamruzzaman (2014) evaluated the performance of 32 growth oriented mutual funds on the basis of monthly returns compared to benchmark returns. Risk adjusted performance measures suggested by Sharpe was employed. This study found that, over the research period selected mutual funds show positive monthly return and upward trend in comparison to market return.

The Sharpe ratio (1966) was developed out of the Capital Asset Pricing model (CAPM). Prior to the Sharpe ratio, existed other theories such as the Expected utility theory, a theory of behaviour provides a model on how economic agents or investors especially risk averse investors, make choices among risky alternatives when faced with uncertainty. The individual decision making under uncertainty is achieved by maximizing expected utility of end-of-period wealth. This criterion can be valid when individuals are rational, prefer more to less and follow economic axioms of behaviour of choice under uncertainty. It is very simple way of making choices among mutually exclusive investments having different probability distribution of end-of-period payoffs.

The State of Preference theory was the second important theory used to investigate investment decisions under uncertainty for a given set of security prices. The concept of state of nature is used to capture uncertainty in the economy. The investment decisions of firms and individuals are linked through supply and demand for securities in the capital markets. Thus firms sell securities to raise funds to invest in real assets and these individuals that buy those securities obtain claims against these assets (Copeland *et al.*1983).

Markowitz (1952), also proposed the idea of Modern Portfolio Theory and suggested that investors should be compensated for additional risk and provided a framework for measuring risk. After the development of portfolio theory and capital asset pricing model risk was included in the evaluation process of securities

3.7 Chapter Summary

The central issue that Corporate Governance is the mechanisms by which firms are managed and controlled, has been found in the literature to have influence on the performance of firms. There has been lot of studies in Ghana about Corporate governance and other linkages such as financing decisions, dividend policy, capital structure etc but none or few of these studies has been done on Corporate governance with regards to mutual funds. The new variable on gender diversity coupled with other governance variables: board size, board composition and frequency of board meeting have been reviewed to examine the effect on the performance of mutual funds registered with Security and Exchange Commission (SEC) of Ghana. All the governance variables except board size are expected to have positive relationship with mutual fund performance. Managerialism theory of corporate governance has also been considered

and Sharpe ratio, an important risk-adjusted performance measure used by Sharpe (1966) to evaluate mutual fund performance was used to assess the performance of Ghanaian mutual funds.

Empirical evidence on some corporate governance variables revealed inconclusive results which may be due to time differences and the level of corporate governance and practices among corporations. However, Chen *et al.* (2011) studied Mutual Fund Governance and Performance in China. They examined the relation between mutual fund performance and Morningstar's fiduciary grades using quantile regression models in order to shed new light on the principal-agent issue in the mutual fund industry. Mutual fund governance variables such as manager incentives and board quality as well as fund specific variable such as fund fees, portfolio turnover, fund age, asset size and expenses on fund performance across the entire performance distribution were considered and suggested that Manager incentives, are positively related to the fund performance for better performing funds, and negatively correlated with portfolio turnover. In contrast, board quality, which is in the center stage of the proposed SEC mutual fund regulation, bears little relationship with contemporaneous fund performance, yet is strongly related to funds' future performance. Also Fund fee does not seem to bear any robust relation with fund performance.

CHAPTER FOUR

METHODOLOGY

4.1. Introduction

This chapter mainly focused on Ghana considering eight out of the twenty-two mutual funds registered with Security and Exchange Commission in Ghana. The analysis covers the period from 2008 to 2012. The regression models estimated was analyzed using Stata 12, statistical software for analyzing panel data.

4.2 Data Sources

The section describes the sources of the data used in the empirical analysis and how to study the mutual fund governance issues and its implications on fund performance. The study employed both primary data and secondary data. Primary data was obtained through administration of questionnaires on the governance variables. The secondary data was also obtained from the financial statements, annual reports of mutual funds and the SEC annual reports within five year period, form 2008-2012. The survey strategy was employed

4.3 Model Specification:

This study employs a panel data regression analysis. Panel data involve the pooling of observations on a cross-section of units over several time periods and provides results that are simply not detectable in pure cross-sections or pure time-series studies. The panel regression equation is different from a regular time-series or cross section regression by the double subscript attached to each variable.

The general form of the panel data model can be specified more compactly as:

$y_{it} = \alpha_i + \beta x + \mu_{it}$ .....(1)

the subscript *i* denoting the cross-sectional dimension and t representing the time-series dimension. The left-hand variable y_{it}, represents the dependent variable in the model, which is the firm's Sharpe ratio. βx_{it} contains the set of explanatory variables in the estimation model, α_i is taken to be constant overtime t and specific to the individual cross-sectional unit *i*.

4.4 **The Empirical Model**

The empirical model to examine corporate governance and its influence on firm performance is specified as per, researcher's own empirical model as:

$$Perf_{i,t} = \beta_1 BS_{i,t} + \beta_2 SQBS_{i,t} + \beta_3 BC_{i,t} + \beta_4 WB_{i,t} + \beta_5 FBMs_{i,t} \beta_6 SIZE_{i,t} + \beta_7 AGE_{i,t} + \mu_i + e_{it} \quad \text{.....(2)}$$

where:

Performance (Sharpe ratio) is measured as: $SR_{p\,i,t} = \dfrac{R_{p\,i,t} - Rf_t}{\sigma_{p\,i,t}}$

Where:

Sharpe ratio ($SR_{pi,t}$) = the annualized excess return divided by the standard deviation of the return for firm i in time t;

$R_{p\,i,t}$ = Portfolio returns for firm i in time t;

Rf_t =Risk free rate for the firms in time t;

$\sigma_{p\,i,t}$ = Portfolio standard deviation for firm i in time t; calculated from annual data using rolling window technique over the preceding 36 months.

$BS_{i,t}$ = the log of the total number of people serving on the board of directors for firm i in time t;

$SQBS_{i,t}$ = square of the log of the total number of people serving on the board of directors for firm i in time t;

$BC_{i,t}$ = is the ratio of non-executive directors to the total number of directors for firm i in time t;

$WB_{i,t}$ = Dummy variable indicating 1 if there is at least one woman on the board, or zero otherwise for firm i in time t;

$FBMs_{i,t}$ = the total number of board meetings in a year for firm i in time t;

$SIZE_{i,t}$ = the natural log of total assets for firm i in time t;

$AGE_{i,t}$ = fund age is the period (in years) between the fund's inception date up to the period under study for firm i at time t;

where:

$\mu_{i,}$ = is time-invariant and accounts for any unobservable individual-specific effect that is not included in the regression model.

$e_{i,t}$ = remaining disturbance. It varies with the individual firms and time. It can be considered as the usual disturbance in the regression.

4.3.1 Dependent variable

Performance (**PERF**) is the dependent variable which is Sharpe Ratio, a risk-adjusted performance measure based on the theory of the pricing of capital assets by Sharpe (1964). Sharpe ratio is calculated by subtracting the risk-free rate (deposit rate) from the

rate of return for a portfolio to get “Excess Returns" and then dividing the excess returns by the standard deviation of the portfolio returns. “Sharpe ratio is therefore a measure of reward to risk, which uses the total risk or standard deviation of returns as its measure of risk”. The advantage of using the Sharpe ratio for evaluating portfolios is that, it does not depend on the choice of a benchmark (market index). The Sharpe ratio also tells us whether the returns of a portfolio are due to smart investment decisions or as a result of excessive risk taken by the manager.

However, various studies have been conducted to evaluate the Performance of mutual funds using the risk-adjusted technique with mixed results. For instance, Onur *et al.* (2008) evaluated the risk-adjusted performance of US-based international equity funds. The empirical results showed that the funds with the highest average returns may lose their attractiveness to investors once the degree of risk embedded in the fund has been factored into the analysis. Conversely, some funds whose average (unadjusted) returns do not stand out, may look very attractive once their low risk is factored into their performance. Hou (2012), investigated whether mutual fund investors can make effective cash flow timing decisions and examined the sensitivity of these decisions to past fund performance using cash flow data at the individual fund level. The empirical results showed that funds that have performed well (poorly) in the previous year tend to continue performing well (poorly) in the following year, and investors’ timing performance is negatively related to fund performance. The results also showed that investors’ timing performance is significantly and negatively related to fund size, length of fund history, and momentum-style of funds, but positively related to value-style funds. These results suggested that mutual fund investors are loss-averse and demonstrate return-chasing behavior in well-performing funds.

4.3.2 Explanatory Variables

The independent variables include board size (BS), and the board composition (BC), frequency of board meetings (FBMs) and Gender diversity (WB). The model includes certain control variables for the firms' attributes which also influence firms' performance fund size (FS) and fund age (AGE).

4.3.2.1 Board Size

Board size refers to the number of directors in the board and a very important characteristic that determines their effectiveness. Given the experience and expertise of the board members, the size of the board (BS) can affect the kind of decision taken by the firm. Therefore the influence of such governance variable is examined on the firm's performance. The square of the board size (SQBS) is also included in the regression to take account of the non-linearity assumption. The SQBS is a quadratic term. The rationale of squaring the board size is that, board size is squared for an optimum to be reached so that when the number of the board size goes up above the optimum, it results in a negative impact on the firm performance. At the optimum level firm performance is to be positive. SQBS is measured taking the natural log of the number of board of directors and squaring the number.

4.3.2.2 Board Composition

Board composition is the measure of the proportion of outside board members as a ratio of total number of the board members. Board composition has to do with how to blend executive and non-executive directors to serve on the board. Board composition is the proportion of non-executive directors to the total board size.

4.3.2.3 Gender Diversity

Gender diversity is an important issue in corporate governance which is defined as the range of ethnic and gender representation on boards of directors (Erhardt *et al*, 2003). However, ethnic groups are not generalized across all countries hence women play a very important role in this regard. For this reason, the Higgs Report (2003) stresses the importance of incorporating women onto boards of directors, especially when there is little or no female representation.

4.3.2.4 Frequency of Board Meetings

Frequency of Board Meeting is measured as the total number of board meetings in a year. Regular meetings provide a venue for board members to review the organization's financial situation and program activities, establish and monitor compliance with key organizational policies and procedures, and address issues that affect the organization's ability to fulfil its mission.

4.3.2.5 Funds size

Funds size is one of the determinants of performance. Empirical studies about fund size can be categorized into two groups which are made of researchers who test the direct relation between size and performance and second group who shows that this relation is attributed to the existence of economies of scale in the mutual funds industry, Samira *et al.* (2011). Studies examining the direct impact of size on performance found portray inconclusive results. For example, Samira *et al.* (2011) examined the ability of well-known fund characteristics such as the recent past performance, fund size, management fees, fund age, net asset value and fund growth so as to explain Tunisian equity mutual

fund performance and find that past performance and fund size have a positive and significant influence on future performance for all fund categories, irrespective of what performance measure was used. This may indicate the existence of scale economies in the Tunisian equity mutual fund industry. The authors also confirmed the empirical evidence that historical performance contains some information about future performance and such information may be important to mutual fund investors. It was also found that fund size is positively related to future performance of small fund category as well as of large fund category. Golec (1996) and Payne *et al.* (1999) pointed to the existence of a significantly positive relation between the performance funds and their size. This result indicated that the funds' size helps managers to diversify their portfolios and to share out management fees amongst many investors. This is confirmed by (Indro *et al,* 1999). However, they showed that the relation sign depends on the total net asset (TNA) under management: an increasing relation between size and return expect exists for the funds in the largest size deciles.

In finding risk-adjusted returns of funds, a concave relation was found between fund size and firm performance, increasing from small to large funds and decreasing for very large funds. However, Dahlquist *et al.* (2000) found that size has a negative influence on performance. According to Demine and Roller (1992), fund size may influence performance in the mutual fund industry when a fund gets extremely large; it then becomes more and more difficult to continue delivering high returns if it is unable to deploy its entire capital into its trading strategies. Secondly, larger funds need more managers, which may make the fund's organization more complex and costly. It could therefore be argued that fund size may affect negatively the performance due to liquidity and organizational diseconomies. Indro *et al.* (1999) documented that the trades on

information or the implement strategies become more difficult for large funds. In consistence with this accession, Latzko (1999) and Wang (2002) found that economies of scale and scope exist for their sample of mutual funds by estimating a cost function and even using several functional forms after testing whether mutual funds are able to reap economies of scale by increasing their sizes. They examined the relation between management costs and fund size. And different results for the optimal size have been reported. This finding is confirmed by Dermine and Roller (1992) who documented the existence of economies of scale and scope solely for the smaller French mutual funds and across all fund categories. Finally, empirical evidence suggests that fund size may have a positive (or negative) impact on future performance due to increasing (or decreasing) returns to scale (Samira *et al.*, 2011).

4.3.2.6 Fund Age

The age of a mutual fund could play a very significant role in deciding performance since younger funds may face significant higher costs in their start-up period. This is due to marketing costs and initial cash flows because it will place a greater burden on the funds' transaction costs. According to Gregory, Matatko and Luther (1997), the return of new mutual funds may be affected by a learning period. Gregory *et al.* (1997) provided evidence that mature funds perform better than younger ones. One of the reasons of underperformance of younger funds, according to Bauer *et al.* (2002) is their exposure to higher market risk since they are invested in fewer stocks.

A study made by Yong and Jusoh in 2012 showed a converse relationship between fund age and performance; young funds performed better than old ones.

Otten and Bams in 2001 also pointed out that younger funds did better than mature ones and that investors should put their monies in younger funds Similarly, Thomas and Marina (2005) found younger funds performing better than old ones.

However, Peterson *et al.* (2001) found no relationship between performance and fund age. There is a relationship between fund age and fund size; young funds tend to be smaller than older ones, which makes the young funds' return and rating more vulnerable for manipulation. The smaller the fund, the more a handful of fortunate stock picks could buoy the performance of the entire funds. Moreover, because young mutual funds are typically smaller, fund families may be able to afford to waive some of the expenses (Adkisson & Fraser, 2003). The earlier studies actually showed diverged results.

4.3.2.7 Risk

As an initial step in the process of investment decision, funds endeavour to attract prospective and maintain potential investors by referring to their past performance even though past performance does not guarantee or even directly relate to future performance. Investors are interested not only in funds' returns but also in risks taken to achieve those returns. Risk can be thought of as uncertainty of expected returns, and uncertainty is generally equated with variability. Investors demand and receive higher returns with increased variability, suggesting that variability and risk are related. Several studies have investigated the predictability of funds returns, notably (Trainor Jr (2010), Philippas *et al. (*2007), Athanasius *et al.* (2005) and Otten and Bams (2002) with mixed results. For instance, Trainor Jr (2010) analyzed the risk-adjusted performance of individual mutual funds that investors use to invest in the high yield debt market asset class and posits that high yield bond funds significantly underperform the CSFB high yield index by 1.6 per cent on an annualized basis which is 0.5 per cent more than the

average expense ratio. Individually, funds do exhibit performance persistence and top ranked funds in one period outperform bottom ranked funds over the proceeding period by an average of 2.7 percent annually. However, except for the expense ratio, commonly used explanatory variables do not appear useful for explaining risk-adjusted excess return differences across funds leaving 86 percent of the variation unexplained. Athanasios *et al.* (2005) findings indicated a positive relation between risk and return. Laurens *et al.* (2009) found that, for each of the three categories, equity, balanced, and bond funds; there exists positive relationship, but insignificant selectivity skill of the mutual fund managers. No evidence is found of bond or equity market timing skills in the sample.

Several statistical measures are used to assess risk. The most commonly used method for evaluations of risk of mutual funds are R^2 with the market portfolio, standard deviation of returns, and beta. However, for the purpose of this work standard deviation of the mean will be considered for the calculation of the Sharpe ratio.

CHAPTER FIVE

RESULTS AND DISCUSSION

5.1 Introduction

This chapter covered the analysis of the data collected and discussion of the empirical results. The data are presented in this chapter using data on standard deviation and Sharpe ratio for the respective years under review, followed by descriptive statistics of the variables and the model diagnostics. Then the correlation matrix and the discussion of the regression results of the study.

5.2 Standard Deviation and Sharpe ratio Results:

This section gives the standard deviation and Sharpe ratio results of the dataset used for the study.

Table 5.1 contains the data on standard deviation (σ_{pit}) and Sharpe ratio (SP_{it}). The standard deviation results were calculated from annual data using rolling window technique over the preceding 36 months. For 2008, standard deviation (σ_{pi_t}) was calculated using annual data for 2006-2008, 2009 was calculated using 2007-2009, etc.

Table 5 1: Ghanaian Mutual Funds with their Standard Deviation and Value of Sharpe Ratio

MUTUAL FUNDS	STANDARD DEVIATION (σ_{pi_t})					SHARPE RATIO (SR_{it})				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
MFUND	3.47	8.12	6.04	8.13	2.55	0.17	0.68	0.82	0.20	-1.41
BFUND	2,54	12.36	20.52	20.93	14.42	0.35	-2.19	1.17	-0.10	-0.16
EPACK	26.16	32.01	23.29	25.81	23.22	-0.77	-1.02	0.91	-0.89	-0.05
SAS	16.76	33.70	40.00	37.97	28.10	1.53	-1.34	0.93	-0.45	0.07
NTHC	13.36	14.20	15.31	13.52	8.46	0.48	-1.73	0.82	-0.01	0.77
UNIT TRUST	4.21	5.39	5.52	6.75	1.01	0.31	0.19	0.04	0.11	-5.34
EQUITY TRUST	6.95	9.15	10.02	12.12	4.82	1.66	1.43	0.36	0.25	0.87
REIT	8.31	26.77	24.97	17.74	14.33	2.52	-1.21	0.52	-0.43	0.77

The Sharpe rule, states that in assessing the comparative merits of two funds, the fund with the highest Sharpe ratio must be chosen. For example, in 2008 HFC REIT had the highest sharpe ratio of 2.52. The Sharpe ratio for the mutual funds in 2008 -2012 is typically between 0.5 and 3. A rule of a thumb is that if the annualized Sharpe Ratio is over 1.0, the fund had a 'pretty good' year. Therefore, in 2008, HFC REIT, HFC EQUITY TRUST and SAS Fortune Fund had 'pretty good' year with outstanding Sharpe ratio of 2.52, 1.66 and1.55 respectively (Investopedia.com 2007).

5.3 Descriptive Statistics

This section gives the descriptive summary statistics of the dataset of the analysis and this includes a description of the dependent and the independent variables used for the study.

Table 5.2 showed a description of the dependent variables and independent variables for Sharpe ratio used for the study.

Table 5 2: Descriptive Statistics

	SHARPE	BSIZE	BCOM	WB	FBMS	AGE	SIZE
MEAN	0.02	1.60	0.60	0.75	3.25	13.13	15.78
MIN	-5.34	1.39	0.40	0	2	6	13.49
MAX	2.52	1.79	0.80	1	4	23	18.36
SD	0.09	0.10	0.17	0.44	0.84	5.69	1.60
N	40	40	40	40	40	40	40

As shown in the Table 5.2, between 2008-2012, the average (mean) mark of risk-adjusted performance of sharpe ratio (measure as the annualized excess return divided by the standard deviation of the return) is 0.02. This meant that average risk-adjusted return on mutual funds' performance (sharpe ratio) is approximately 2% with a standard deviation of 0.09 or 9% meaning that the volatility of the funds under study is 9%. The

mean values show the average indicators for variables used. With a minimum of -5.24 and a maximum of 2.52. The Sharpe ratio is the key indicators of overall performance of the funds and tells us whether a portfolio's returns are due to smart investment decisions or a result of excess risk and the greater the risk the high the performance. A positive sharpe ratio suggest that a mutual fund has well diversified portfolios, and the higher a portfolio's Sharpe ratio, the better its risk-adjusted performance. On the other hand, a negative Sharpe ratio indicates that a riskless asset would perform better than the security being analysed

Board size measured as a natural logarithm of number of directors has a meant value of 1.60. With regards to the board composition measured as the proportion of outside directors to total number of directors, the mean value is 60 per cent. This meant that mutual fund companies have more outside directors than executive directors.

The presence of women represented on the board recorded an average high as 0.75 or 75% with a minimum of 0 and a maximum of 1. This showed that most of the companies had a number of females on the board. Firm size also measured as a natural logarithm of total assets has a mean value of 15.78.

Frequency of board meeting also recorded an average of 3.25 meaning that almost all the firms under study held meetings four times every year. The average age of the funds stood at 13.13 years and a maximum of 23 years.

5.4 Model Diagonostics

Table 5 3: Model Diagonostics

Test	Wald X^2	p-Value
Hausman test	0.54	0.4617

The specification test was performed to choose between random and fixed effect estimation techniques. Hausman test is one of the methods use in estimating panel data. It is used to determine whether to use the fixed effect estimate or the random effect estimate. There was no significant result (that is, Random effect model is more appropriate). The null hypothesis of Hausman test states that the random effect estimate is to be used. Therefore when the value is less than the alpha (0.05) then you reject the null hypothesis (H_0). Again if the value is greater than the alpha (0.05), you accept the null hypothesis. From the computation the probability of Hausman test is 0.4617 and Wald chi^2 is 0.54, the random effect is deem appropriate.

5.5 Correlation Analysis

Table 5 4: Correlation Analysis

	SHARPE	BSIZE	BCOM	WB	FBMS	SIZE	AGE
SHARPE	1.00						
BS	-0.08	1.00					
BC	-0.07	-0.15	1.00				
WB	-0.05	0.60	-0.25	1.00			
FBMS	0.08	-0.26	-0.42	0.52	1.00		
SIZE	-0.21	-0.04	-0.05	-0.06	-0.23	1.00	
AGE	-0.19	0.35	-0.62	0.37	0.23	0.54	1.00

Table 5.4 gives an indication of the relationships between the dependent variable and independent variables. From the above matrix, it is evident that, Sharpe Ratio and board size are negatively correlated at -0.08. There is positive correlation between board size and gender diversity significant at 0.023. Gender diversity is also positively correlated

with frequency of meetings significant at 0.002. There is negative correlation between board size and board composition which is significant at 0.042. There is negative correlation between board size and frequency of meetings significant at 0.002. The correlation matrix table overall showed that, there is no multicollinearity which made both the dependent variable and the independent variables fit for running the regression of this study.

5.6 Regression Results

Table 5 5: Regression Results on the Corporate Governance and Performance of Mutual Funds. Dependent Variable: Sharpe Ratio

INDEPENDENT VARIABLES	Coef	Std. Err	Z	P-values
BS	-0.8828	8.6277	-0.10	0.919
SQBS	3.1306	13.8619	0.23	0.823
BC	-0.4254	0.6137	-0.69	0.493
WB	-1.6395	0.6872	-2.39	0.023
FBMS	1.2247	0.3630	3.37	0.002
SIZE	0.0670	0.1310	0.51	0.613
AGE	-0.0679	0.0288	-2.35	0.025
Observation	40			
Groups	8			
wald chi2	0.54			
prob>chi2	0.4617			
F(7,32)	11.90			
prob>F	0.0000			

Regression analysis is used to investigate relationship between corporate governance and performance of mutual funds. Overall, one equation was used to run the panel regression model for performance measure. The F-statistics proved the validity of the estimated models.

The board size and the board composition were found to be negative and insignificant determinants of the firm performance. The firm size was positive but not a significant

predictor of the firm performance. On the other hand, the results indicate statistically significant negative relationships in the case of gender diversity and fund age. The study also recorded a positive and statistically significant relationship between frequency of board meeting and firm performance.

The board of directors are responsible for managing the firm and its operations. With statistically insignificant outcome for both the board size and the squared of board size, boards of mutual funds are irrelevant in Ghana. This is consistence with, Fama & Jensen (1983) who argued that boards of mutual funds are irrelevant because of investors monitoring. It implies a substitution effect between the external and internal monitoring: boards should be more effective when market monitoring is weak. Other previous study such as the one conducted by Ebrahim Mohammed Al-Matari, 2012) also found that board size is negatively and insignificantly related to firm performance. This finding is not consistent with the findings of (Jensen, 1993; Ding & Wermers 2005; Jensen & Meckling 1976 and Naveen *et al.* 2013). These previous empirical studies find positive relationship between board size and firm value. Hypothesis1 is therefore not supported.

The (Ghana, 2010) SEC code of Best Practice clearly specifies the composition of the board. It states that the board should include a balance of Executive Directors (ED) and Non-Executive Directors (NEDs) with a complement of independent NEDs being at least one third of the total membership of the board. The results of the study indicated statistically insignificant and negative relationship between board composition (i.e. the ratio of non-executive directors to total directors) and firm performance.

The negative and statistically insignificant association between board composition and performance suggests that in mutual funds, boards of mutual funds are irrelevant and

where greater proportion of the directors comes from outside rather than the inside demonstrates a downturn on performance. This implies that the involvement of outside directors does not enhance the ability of the firm to protect itself against threats from the environment and align the firm's resources for greater advantage. The composition of the board also does not help to mitigate the principal-agent problem. The results pertaining to the effect of the board composition on the Sharpe ratio which showed a negative insignificant relationship indicate that, the hypothesis (H2) postulating this relationship was not supported. The negatively insignificant relationship between board composition and firm performance has been confirmed by some previous studies such as those conducted by (Jensen, 1993; Al-Matari *et al*. 2012). This is not consistence with the findings of Rosenstein and Wyatt (1990) which documented a positive stock price reaction to the appointment of outside directors even when outside directors already constitute a majority, suggesting that outside directors provide expertise beyond monitoring service.

Gender diversity showed negative but statistically significant relationship with performance. This result suggested that mutual funds with women on their boards rather demonstrate adverse effect on performance than those without women on their board. This result confirms the findings of previous study by Jiwook and Dobbin (2010). Hypothesis 3 which states that there is positive relationship between gender diversity and firm performance was not supported by the hypothesis. Although the hypothesized direction was correct, the hypothesis was not supported at the 5% significant level. This finding was inconsistence with Jiwook and Dobbin (2010) which indicated that there is a significant positive effect of gender diversity for block holding public pension funds.

There is positive and significant association between frequency of board meeting and performance, implying that the more frequently the board meets the more they try to uphold the governance of the organisation. Also the more frequently the board meets, the more they tend to generate higher financial performance. It is consistence with (Collins *et al*; 2011 and Davidson *et al*. 1998; Basil Al-Najjar (2012). Hypothesis 4 which states that there is positive relationship between frequency of board meeting and firm performance was supported by the hypothesis. But not consistence with Vafeas (1999) which found that annual number of board meetings is inversely related to firm value. This result is driven by increases in board activity following share price declines.

5.6 Control variables

With regards to the Firm Size of the fund, result showed a positive and insignificant relationship with firm performance. That is to say that, the larger the firm in size, the higher its performance. The size of a fund influences performance but not relevant to the performance outcome of the firms.

Finally, age has negative significant impact on performance, meaning that the longer the number of years the fund has been in existence the lower the performance. This is in consistence with (Yong & Jusoh, 2012; and Otten & Bamsin, 2001).

CHAPTER SIX

SUMMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter covered the summary and conclusions of the entire work done based on the objectives thereof. It also discussed the relationship between corporate governance and performance of mutual fund firms and finally suggested recommendations for future research on good corporate governance practices for mutual fund firms in Ghana.

6.2 Summary

This study examined the relationship between corporate governance and performance of mutual funds in Ghana. The characteristics of corporate governance used for this study include board size, board composition, gender diversity and frequency of board meeting. The empirical results showed statistically significant and positive associations between frequency of board meeting and firm performance but significant negative association with gender diversity. This study results indicated that Ghanaian mutual fund companies perform better with persistence board meeting at least four times in a year. The study also showed that mutual fund companies in Ghana tend to perform better with lower percentage of gender diversity.

The issue of corporate governance has important implications on the performance of Ghanaian mutual fund companies. In order for investor to maximize risk-adjusted returns, firms may have to meet regularly since the boards of the sampled firms appear very busy with a mean annual meeting frequency of 3.25 which appear that the board meets on quarterly basis. Firm size recorded not significant relationship with firm performance. Basically, a well-established corporate governance system ensures

effective corporate governance regarding issues such as effective control and accounting systems, stringent monitoring, effective regulatory mechanism and efficient utilisation of firms' resources resulting in improved performance. Indeed Mutual funds with well-established corporate governance structures are able to increase their fund size at the same time investors also maximize their risk-adjusted returns. This implies that the ability of the firm to increase performance could be to a large extent by how the market accesses its corporate governance system. The area of corporate governance and mutual fund performance still needs further research in order to improve upon issues confronting the industry.

6.3 Conclusions

The significance of corporate governance and fund performance has received much attention in both developed and developing economies. Studies on corporate governance and its implications on mutual fund performance have received much attention from researchers. However, most of these are focused on pension funds, closed ended funds and open-ended funds. Using a sample of 08 mutual fund companies in Ghana, the study examined the structure of corporate governance in mutual funds in Ghana and assessed the relationship between corporate governance and mutual fund performance of fund managers from the period 2008 to 2012. This study assessed the effect of corporate governance mechanism such as board size, board composition, board gender, meeting frequency and as well as risk-adjusted performance measure such as Sharpe ratio. Fund specific variables including fund size and age which could likely affect performance have been considered.

From the study it could be seen that board size as well as board composition in mutual funds are not relevant. They show statistically insignificant association with firm performance. Some other previous studies such as those conducted by (Jensen, 1993; Al-Matari, 2012) found that board size is negatively and insignificantly related to firm performance.

The negative and insignificant effect of board composition and firm performance has been confirmed by the findings of previous studies by Al-Matari (2012). Impliedly, the existence of non-executive directors do not help in mitigating principal agency problems associated with mutual funds.

Gender diversity shows negative and significant relationship with performance indicating that the inclusion of women on the boards of mutual funds rather lowers performance. Therefore the issue of women playing a very important role in this regard does not arise. Results from the study showed that Frequency of board meetings has positive and significant relationship with performance which showed that the more frequently they conduct meetings the greater the performance, since critical issues are deliberated upon and smart investment decisions which will enable the firm to achieve its risk-adjusted return as well as increasing the fund size. This is supported by Collins *et al.* (2011) and Davidson *et al.* (1998). The study further discovered that when the boards hold meetings regularly, it will augur well for maximising risk-adjusted returns.

Studies have reported mixed findings for some corporate governance variables in relation to performance of firms. This may be due to time differences and level of corporate governance awareness and practices among firms. Firm performances are affected by

other factors beyond corporate governance variables. An example may include age of the firm, as well as differences in performance measures used to assess the performance of the firms. Changes or improvement in regulation may also bring about the differences reported in the various studies.

This study is of particular interest to policy makers concerned about stimulating an appropriate corporate governance environment in the financial system especially with mutual funds in Ghana.

6.4 Recommendations

In view of the above conclusion, the following recommendations are worthy of considerations as follows:

One way by which investors benefit from their investment is efficient management of their funds by fund managers. It is recommended that, mutual fund companies must demonstrate best practice. There must be more effective corporate governance mechanisms that will compensate mutual funds' investors in realizing their risk-adjusted returns.

The researcher is recommending that, Mutual funds companies should try as much as possible to maintain a controllable board size and to ensure that the firm's performance is always positive.

It emerged that gender diversity is an important issue in corporate governance as advanced by (Erhardt *et al.* 2003). The researcher is suggesting that women should also

be part of the board to ensure gender balance especially, where there is no female representative.

The researcher is further recommending that the Collective investment scheme Regulators and the SEC should ensure that there is frequent board meetings to review the organisations' financial situation as well as enforcing established monitoring tools and research to correctly inform current investors and potential investors on the performances of mutual funds in the country.

It is recommended that, Fund management companies must state clearly in their prospectus how different their newly formed funds will differ from other existing funds. This will help investors to understand the different investment goals of different mutual funds run by the same asset management company.

Sharpe ratio, a risk-adjusted performance measure worldwide was used. This study therefore recommends further studies into this area of study in Ghana, should also use the Treynor ratio.

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APPENDICES

Appendix I: List of Mutual Funds in Ghana and their Fund Managers

List of Mutual Funds in Ghana and their Fund Managers

	FUND MANAGERS/BROKERS
Aggressive Growth Fund	IC Securities (Ghana) Ltd No. 2, 2nd Ridge Link North Ridge Accra
Anidaso Mutual Fund	Anidaso Mutual Fund Limited 1st Floor, Cocobod Jubilee Bldg Adum P.O Box UPO 603 Kumasi
Campus Mutual Fund	Campus Mutual Fund Limited 1st Floor, Former NPART Bldg House No. D921/3, Asafoatse St P.O Box GP 14198 Accra
Christian Community Mutual Fund	Christian Community Mutual Fund Ltd. 7 Awulakpakpa Street Osu P.O Box GP 919 Accra
Databank Ark Fund	Databank Ark Fund No.61 Barnes Rd Adabraka PMB, Ministries Post Office Accra
DataBank Balanced Fund (B-Fund)	Databank Balanced Fund No.61 Barnes Rd Adabraka PMB, Ministries Post Office Accra
DataBank Money Market Fund (M-fund)	Databank M-fund No.61 Barnes Rd Adabraka PMB, Ministries Post Office Accra
EPACK Investment Fund	Databank EPACK Investment Fund Limited No. 61 Barnes Rd Adabraka PMB, Ministries Post Office Accra
First Fund	First Fund Ltd

	No. 6 South Liberia Road P.O Box 1464 Osu Accra
FirstBanc Heritage Fund	FirstBanc Heritage Fund No. 6 South Liberia Road P.O Box 1464 Osu Accra
Freedom Fund	Liberty Capital (GH) Limited Chez Julie Plaza, Community 10 P.O Box CS 8876 Tema
Gold Fund Unit Trust	Gold Fund Unit Trust 5 Mozambique Link Opp. Royal Netherlands Embassy P.O Box GP 14198 Accra
Gold Money Market Fund	Gold Money Market Fund 5 Mozambique Link Opp. The Royal Netherlands Embassy P.O Box GP 14198 Accra
HFC Equity Trust	HFC Equity Trust 6 Sixth Avenue, Ambassadorial Enclave Ridge West P O Box CT 4603, Cantonments Accra
HFC Future Plan Trust	HFC Future Plan Trust 6 Sixth Avenue, Ambassadorial Enclave Ridge West P O Box CT 4603, Cantonments Accra
HFC Real Estate Investment Trust (REIT)	HFC Real Estate Investment Trust 6 Sixth Avenue, Ambassadorial Enclave Ridge West P O Box CT 4603, Cantonments Accra
HFC Unit Trust	HFC Unity Trust 6 Sixth Avenue, Ambassadorial Enclave Ridge West P O Box CT 4603, Cantonments Accra
iFund Mutual Fund	iFund Mutual Fund Limited Ecobank Capital

	No. 5 2nd Ridge Link North Ridge Accra
Merban Fund	Merban Fund Limited (Merban Stock Brokers) Merban House 44 Kwame Nkrumah Avenue P.O.Box GP 401 Accra
NTHC Horizon Fund	NTHC Horizon Fund Limited (NTHC Brokers) Martco House, Adabraka P.O Box KIA 9563 Airport Accra
SAS Fortune Fund	SAS Fortune Fund Limited (Strategic Africa securities) 14th Floor, World Trade centre Independence Avenue P.O Box KA 16446 Accra
Stanbic Income Fund	Stanbic Investment Management Ltd. Valco Trust Towers, Castle Road P.O Box CT 2344, Cantonments Accra

Appendix II: Performance of Mutual Fun

Name of scheme	2008 NAV(GH¢)	2008 unit price(GH¢)	2009 NAV(GH¢)	2009 unit price(GH¢)	2010 NAV(GH¢)	2010 price(GH¢)	2011 NAV(GH¢)	2011 unit price(GH¢)	2012 NAV(GH¢)	2012 unit price per share(GH¢)
Databank Balance Fund	3467877	0.12	2136466	0.11	3629314	0.16	5700590	0.17	49090957	0.19
Epack investment fund	85532865	0.83	52635318	0.75	65934266	0.10	52571691	0.88	54264036	1.03
Databank Money Fund	16731666	0.19	29317803	0.24	66145206	0.29	89733054	0.32	85993088	0.37
NTHC Horizon Fund	741442	0.11	692739	0.11	924675	0.14	1002819	0.15	1290291	0.19
SAS Investment Fund	1712448	0.16	955624	0.13	1382485	0.19	1390011	0.17	1290811	0.21
HFC Unit Trust	18513114	0.17	20265359	0.64	25318571	0.08	28852809	0.09	33126906	0.12
HFC Equity Trust	3996023	0.12	1352232	0.14	1969075	0.20	9718095	0.20	9125028	0.26
HFC REIT	1737020	0.62	4833070	0.73	9222618	0.86	10788519	1.08	27510118	1.08