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Bachelor Thesis

**A Debate on Active and Passive Management Strategies –
Measuring the Performance of Active Management in
Switzerland**

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Executive Summary

Problem and Research Question

In recent years, passive investment strategies have experienced a huge growth while active investment strategies have been facing a lot of criticism, such as underperformance and high fees. According to the SPIVA U.S. Scorecard 2017, 82.38% of large-cap managers, 87.21% of mid-cap managers and 93.83% of small-cap managers underperformed their respective benchmark over the last five years. The results over a 10-year and 15-year time frame throw an even darker shadow upon active investment. Considering these numbers, this study gives an overview on the most relevant literature related to the debate on active and passive investment strategies and examines the performance of active investment strategies in Switzerland by comparing Swiss equity mutual funds to common factor benchmark models.

Methodology

This study measures the performance of active management strategies in Switzerland by comparing Swiss equity mutual funds with adequate benchmark indices and controlling for common risk factors. A database of 422 Swiss equity mutual funds is analysed for the time period from April 2003 to July 2017. Three models are used to examine the performance of funds: the Capital Asset Pricing model, the Fama & French model and the Carhart model. First, funds are analysed through individual regressions. Second, equal and value weighted portfolios of funds are analysed. Lastly, funds are analysed by means of panel regressions. For a more detailed analysis, fund returns are examined in different subperiods, thus allowing for a more specific analysis of extraordinary market periods such as the financial crisis.

Results

The majority of results in this paper report negative mutual fund performance after expenses. The estimates for different models and aggregation methods are similar. Over the whole time period, the pooled panel regression of the Carhart model reports an alpha of -0.48% . Results appear to be consistent with the observations of Fama & French (2010) that the performance of active management strategies after fees is a negative sum game. This study further finds that most funds perform better in the more recent time

period after the financial crisis, and that small and mid-cap funds remarkably outperform their respective benchmark during the financial crisis.

Conclusion

Even though the average Swiss mutual fund manager underperforms his respective benchmark, the results do not allow for a clear conclusion, that shifts the debate in favour of one side of proponents. This study is subject to several limitations and shows that the results vary depending on the methods and the variables within the methods used.