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Mokoena, Kortman

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PERFORMANCE EVALUATION OF SMOOTH BONUS FUNDS

Abstract

The article examines whether the average risk adjusted return of Smooth Bonus funds outperform average risk adjusted return of traditional funds. The Smooth Bonus fund has been in existence in South Africa for 50 years and was firstly launched by Old Mutual in 1967. The fund has grown substantial over the years with a value of over R150 billion between Old Mutual, Metropolitan & Momentum Investment and Sanlam by the end of 2016 reporting, however no work has been done to evaluate Smooth Bonus funds. It's a saving vehicle for the purpose of saving for retirement and / or saving for specific goal. It guarantee inflation beating returns, protection of initial investment (80% - 100% depending on the provider) and Investor pay Guarantee fee on annual basis.

The purpose of this research is to educate ordinary South African on Smooth Bonus fund. Also to present an analytical performance evaluation of such funds and to provide answers, or at least guidelines, to such questions as the following: What is a Smooth Bonus funds? How are the returns distributed to investors? What is the difference between Smooth Bonus funds and Traditional funds? How do smooth bonus funds perform against traditional funds in South African market?
The annual sample data are collected for four Smooth Bonus fund and four Traditional fund from Old Mutual and Liberty life for the years 2003 – 2017 which are sold in South Africa. The funds in the sample report returns on an annually basis net of all fees and expenses. A number of methods are used including Sharper ratio and Independent Sample T-test. Sharpe ratio is used to calculate risk adjusted return then use independent sample t-test to test the hypothesis that Smooth Bonus funds Sharpe ratio mean is less or equal traditional funds Sharpe ratio mean for 5, 10 and 15 year term.

The results shows that average risk adjusted return of Traditional funds performed better than average risk adjusted return of Smooth Bonus funds for 5, 10 and 15 years maturity. In addition, the results were inconsistent with the previous studies that Traditional funds were better performer for 10 year term while smooth bonus fund were better performer for 15 years term. However the previous studies comapred unadjusted risk returns. The implication of this finding is that fees, expenses and broker commision are were ignored for this study and the results maybe different depending on the all fees charged and fee structure. The study evaluated performance by grouping Smooth Bonus fund and Traditional fund to form two portfolios while the individual Smooth Bonus fund generated better risk adjusted return.