

# **The Performance of Investment Grade Corporate Bond Funds: Evidence from the European Market**

Leif Holger Dietze, Oliver Entrop, Marco Wilkens  
Catholic University of Eichstaett-Ingolstadt

## **Abstract**

We examine the risk-adjusted performance of European mutual funds offered in Germany investing in euro-denominated investment grade corporate bonds. The funds are evaluated employing a single-index model and several multi-index and asset-class-factor models. In order to account for the risk and return characteristics of investment grade corporate bond funds, we use both maturity-based indices and rating-based indices, respectively, in our multi-factor models. In line with earlier studies focusing on (government) bond funds, we find evidence that corporate bond funds, on average, under-perform the benchmark portfolios. Moreover, there is not a single fund exhibiting a significantly positive performance. These results are robust to the different models. Additionally, we examine the driving factors behind fund performance. As well as examining the influence of several fund characteristics, in particular fund age, asset value under management and management fee, we investigate the impact of investment style on the funds' risk-adjusted performance. We find indications that funds showing lower exposure to BBB rated bonds, larger and older funds, and funds charging lower fees attain higher risk-adjusted performance (alphas).

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Keywords: performance measurement, European corporate bond market, investment grade corporate bond mutual funds, multi-index model, asset-class-factor model