FRENCH MUTUAL FUND PERFORMANCE: EVALUATION OF INTERNATIONALLY-DIVERSIFIED PORTFOLIOS

JOHN G. MCDONALD*

I. INTRODUCTION

THE PURPOSE of this study is to measure the investment performance of French mutual funds, as examples of internationally-diversified portfolios. French mutual funds or SICAV differ from mutual funds in the United States in two important respects.[1] First, the great majority of SICAV hold both domestic and foreign securities, with the largest foreign positions in stocks and bonds listed on the New York Stock Exchange. Second, most SICAV have been established, marketed and managed by French banks, which may have both investment banking and commercial lending operations, a practice forbidden in the U.S. under the Glass-Steagall Banking Act of 1933.[2] Relative to other investors in that domestic environment, many French banks enjoy substantial advantages in financial-analysis resources and access to current information on French firms. Measurement of the investment performance of the French-securities portion of these portfolios constitutes a "strong-form" test of capital market efficiency in France.[3]

The potential advantages of international diversification in common stock portfolios have received considerable attention in the mean-variance framework of Markowitz and Tobin.[4] Papers by Grubel and by Levy and Sarnat demonstrated that efficient internationally-diversified portfolios, constructed from *ex post* returns and standard deviations of return on market indices, generally dominate the results for single nation market portfolios.[5] In the

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1. French mutual funds, *Sociétés d'Investissement à Capital Variable,* are commonly called SICAV.

2. In 1971, the U.S. Supreme Court reaffirmed this important institutional difference in the two countries in the case of *Investment Company Institute vs. The Comptroller of the Currency*. The majority opinion stated that U.S. banks may not operate investment funds for certain pooled accounts in direct competition with the mutual fund industry, reasoning that it would involve the banks in issuing and distributing "securities" in violation of the Glass-Steagall Act. See (27).

3. In Fama's (6) framework, one strong-form test of capital market efficiency examines the investment performance of individuals or institutions that may have privileged access to investment information.

4. The normative framework formulated by Markowitz (17) and Tobin (25) provided the point of departure for the well-known theory of capital market equilibrium of Sharpe (21) and Lintner (16), used in this study.

5. Grubel (10) used monthly returns on market indices, converted to dollars at the current