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RESEARCHARTICLE

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Evidence of Governance Quality and Mutual Fund Performance

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Abstract

This paper presents a relationship between governance quality and mutual fund performance based on non-financial sectors data in Pakistan. It takes into consideration five critical indicators of governance; they include control of corruption, government effectiveness, regulatory quality, rule of law and voice and accountability. Our main regression approach is the OLS estimation model and the robustness of the main regression results is tested by FGLS regression. Results indicate that, except control of corruption, all the indicators of governance have significant positive effects on fund performance. Macroeconomic controls such as GDP, openness of trade, KSE-100 index and COVID-19 are also present in the study. The findings indicate the presence of acceptable governance, which strengthens transparency, investor confidence, and efficacy of funds in emerging economies.

KEYWORDS
Mutual fund performance; Voice and Accountability; Rule of law; Government Effectiveness; Regulatory Quality; Control of Corruption

1 |INTRODUCTION

In recent years, the performance of mutual funds has gained increasing attention among investors, policymakers, and academics, as these investment vehicles play a crucial role in channeling capital into financial markets and supporting economic growth. Among the numerous factors that influence mutual fund performance, governance quality has emerged as a vital but often underexplored determinant. High-quality governance can enhance transparency, reduce agency conflicts, and promote ethical fund management practices, all of which contribute to improved fund performance and investor confidence.

One critical factor that can influence mutual fund performance is governance quality (Khorana et al., 2009). Governance refers to the framework of rules, practices, and processes that guide fund operations and decision making. Effective governance mechanisms can enhance transparency, account-ability, and oversight, ultimately contributing to better fund performance and investor confidence (Adil et al., 2024; Tufano & Sevick, 1997). Conversely, poor governance can lead to agency problems, conflicts of interest, and suboptimal decision-making, negatively impacting fund outcomes. Despite the growing recognition of governance quality's importance, there is limited research on its impact on mutual fund performance. Existing studies have primarily focused on corporate governance in the context of individual companies, rather than investment funds (Gompers et al., 2003).

The global economic turmoil caused by the COVID-19 pandemic has had profound financial consequences, leading investors to seek safe-haven investment opportunities (Ji et al. 2020; Tamanoirs et al. 2022). In situations of financial crisis, which exhibited the COVID-19 situation, investors then modify their investment selections and re-structure their portfolio. During the financial turmoil periods, investors are likely to pursue a low risk investment strategy, at the same time improving their investments work. Therefore, the COVID-19 pandemic contributed to the increased importance of such issues as corporate social responsibility, social, and governance (Pástor & Vorsatz, 2020).

Agency theory relates to this topic by addressing the conflict of interest between mutual fund managers and investors. Good governance quality helps reduce agency problems by ensuring transparency, accountability, and proper oversight of fund managers. Strong governance mechanisms discourage self-

serving behavior and promote decisions aligned with investors. As a result, governance quality can enhance mutual fund performance by improving trust and reducing managerial inefficiencies. Therefore, governance acts as a monitoring tool to align agent actions with principle goals (Mirza et al., 2025; Hussain et al., 2025).Stewardship theory suggests that mutual fund manager, supported by strong governance quality; act as trustworthy stewards who prioritize investors' long-term interests. Good governance fosters transparency and accountability, aligning managers' goals with those of investors. This alignment enhances mutual fund performance by promoting responsible decision-making. Thus, governance quality strengthens the stewardship role, improving fund outcomes. (Subramanian, 2018)

The primary objective of this study is to examine the relationship between governance quality and mutual fund performance. (a) To analyze the effect of individual governance indicators on mutual fund performance metrics. (b) To provide policy recommendations on strengthening governance structures to improve the efficiency and performance of the mutual fund industry. (c) To explore whether COVID-19 altered the traditional relationship between governance and mutual fund performance. The findings of this study have important implications for investors, regulators, and fund managers. Strong governance quality enhances transparency, accountability, and strategic decision-making, which positively influences mutual fund performance. For policymakers, improving national governance can attract more mutual fund investments and promote financial market stability. Fund managers can leverage governance indicators to assess investment risks and optimize portfolio returns, overall, governance reforms can serve as a strategic tool for boosting investor confidence and fund competitiveness.

2. Literature review

Petridis et al. (2023) Tested the effect of Environmental, Social, and Governance (ESG) performance on the efficiency of mutual funds in the COVID-19 pandemic. Their sample was separated into two groups and consisted of 17.961 mutual funds across the globe and it was assessed through the DEA methodology and the use of data available at the second stage of the pandemic. The results revealed that those funds with elevated scores in disputes such as ESG controversies performed better, as compared to those with lower scores. In particular, mutual funds that avoided more ESG scandals were more financially efficient independent of the geographical region of investments. The results indicate the possible implication that the mutual fund managers should add fewer securities with ESG controversy in their portfolios because ESG controversies may negatively affect the financial efficiency in the periods of health, environmental, or market crisis.

Research conducted by Gong et al. (2014), Applying a broad scope governance data of Chinese mutual funds, it was revealed that the governance and organizational levels of fund management companies in China have a tremendous impact on the associated funds performance. Besides, they discovered that the seeming bias as indicated by the lesser fund products, and much higher management fees paid to fund management companies were positively correlated to better performance in the funds management businesses (Khalid et al., 2025).

Wellman and Zhou (2007 documented the relationship between mutual fund performance and mutual fund governance. They discovered that the funds which scored well performed better than the bad grade funds. They found evidence that investors sold low grade and purchased high-grade funds in an analysis that considered the daily fund outflows after the announcement date. Out of the five variables that Morningstar applies when calculating their grades, the variables of Board Quality and Fees variables demonstrate the highest explanatory power. These findings expanded on the primary finding of Gompers, Ishii and Metrick (2003 QJE), viz. that corporate governance has no marginal effect on performance.

Sayyad et al. (2025) investigated that mutual funds have a correlation between the quality of corporate governance and the cost of an investment. Indian data of mutual funds were used to demonstrate that smaller and more independent board relate to low total expense ratio (TER). In addition, funds sponsored by banks and funds held by privately controlled AMCs have less TER. They also discovered that it is cost effective to invest in funds that have women directors in the board. They found that their findings conformed to the agency and signaling theory (Khalid et al., 2025).

Kamal (2013) analyzed the Morningstar Inc.'s new Analyst based on the evidence collected in Egypt as to whether there is any impact of mutual fund governance on the fund dividend policy in the Egyptian Stock Market. The analyses of the paper employed a Structural Equation Modelling approach applied to an ultimate sample of 27 mutual funds over the period of 2004 2013. Empirical results indicated the positive relationship between the quality of governance and the dividend policy in terms of a dividend yield. The findings confirmed the hypothesis which states that stockholders of companies whose governance is higher can compel managers to disgorge more cash value in form of stock dividends. Ratings that were introduced in November 2011 and examined whether the Analyst Ratings can predict future fund performance. They assumed that the rated funds would have a similar rating in 2010, since they are not based on short-term performance measures, and using quantile regressions and found that the Analyst Ratings are significantly positively

related to future fund performance, They found that these ratings are in fact, significantly positively related to contemporaneous fund Performance, using the Sharpe Ratio, as a measure.

Ammann and Ehmann (2017) and Adil et al. (2025) investigated the relationship between governance, investment performance and asset allocation of pension funds in Switzerland. Their sample included survey data from 139 Swiss occupational pension plans. They found empirical evidence that pension fund governance is positively related to excess returns, bench mark outperformance and Sharpe ratios. Furthermore, their study results indicate that asset allocation decisions are not related to governance, but rather to institutional factors.

Trahan (2008) examined measures of the strength of mutual fund governance and the relation of these measures to fund performance. They utilized the Morning star Stewardship Grade and its determining factors to measure the quality of a fund's governance and the information ratio to measure risk adjusted performance. They found that strong corporate governance is associated with better risk-adjusted performance, after controlling for investment objective, expenses, and fund size. Their results supported the notion that, in the mutual fund industry, good governance is consistent with good performance (Hussain et al., 2018).

Khan et al. (2022) examined the impact of governance on stock market performance in Pakistan. The study employed the ARDL model. The study revealed that quality of governance positively affect stock market performance. The findings suggest countries with better developed political systems would favor stock markets with higher market capitalization, better turnover ratios, higher value in shares traded, and a greater number of listed companies (Wang, Hussain and Ahmad, 2023; Ramzan et al., 2023).

3 MATERIAL AND METHOD

3.1. Sample and Data Source

The current study analytically gauges the governance quality and mutual fund performance. The study's sample is collected from firm-level data of 193 non-financial companies from various industries that were listed from 2013-2022 on the Pakistan stock Exchange. Gather information from the state Bank of Pakistan's financial statement analysis, annual reports of both companies and World Development Indicator.

3.2. Variable Description

3.2.1. Dependent Variable: Mutual Fund performance

Mutual fund performance refers to the measurement of a mutual fund's investment returns and overall success in achieving its investment objectives. Mutual fund is measured by total return, Sharpe ratio, and alpha (Risk-adjusted return).

3.2.2. Independent Variable: Governance quality

Governance quality refers to the effectiveness, transparency, and accountability of an organization's management and oversight practices. Proxies for measuring governance quality include Voice and Accountability which measures citizen's ability to participate in governance and express themselves freely. Government Effectiveness measures the quality of public services and policy implementation. Regulatory Quality measures the government's ability to formulate and implement sound policies. Rule of law measures the quality of contract enforcement, property rights, and judiciary effectiveness. Control of Corruption measures the extent to which corruption is prevented and addressed. It assesses the effectiveness of anti-corruption mechanism and the abuse of power.

3.2.3. Control Variable

We include a few control variables, in order to investigate aspects and potential sources of bias in our research. There are following control variables: Trade openness (Trade (% of GDP) measured using indicators like trade-to-GDP ratio, average tariff rates, and trade freedom indices. GDP (natural log of GDP) measured using the production, expenditure, or income approaches. KSE100 index which is a Market Capitalization-Weighted index that tracks the performance of the top 100 companies listed on the Pakistan Stock Exchange (PSX), based on market capitalization and sector representation. COVID-19 used as a dummy variable.

3.3. Econometric Model

The econometric model that follows was developed specifically to examine an association

$$MFP \equiv \alpha + \beta 1(CC_{i,t}) + \beta 2(TO_{i,t}) + \beta 3(GDP_{i,t}) + \beta 4(KSE_{i,t}) + \beta 5(COVID - 19_{i,t}) \quad .1$$

$$MFP \equiv \alpha + \beta 1(GE_{i,t}) + \beta 2(TO_{i,t}) + \beta 3(GDP_{i,t}) + \beta 4(KSE_{i,t}) + \beta 5(COVID - 19_{i,t}) \quad .2$$

$$MFP \equiv \alpha + \beta 1(RQ_{i,t}) + \beta 2(TO_{i,t}) + \beta 3(GDP_{i,t}) + \beta 4(KSE_{i,t}) + \beta 5(COVID - 19_{i,t}) \quad .3$$

$$MFP \equiv \alpha + \beta 1(RL_{i,t}) + \beta 2(TO_{i,t}) + \beta 3(GDP_{i,t}) + \beta 4(KSE_{i,t}) + \beta 5(COVID - 19_{i,t}) \quad .4$$

$$MFP \equiv \alpha + \beta 1(VA_{i,t}) + \beta 2(TO_{i,t}) + \beta 3(GDP_{i,t}) + \beta 4(KSE_{i,t}) + \beta 5(COVID - 19_{i,t}) \quad .5$$

The presented empirical model is designed to examine the impact of various institutional quality

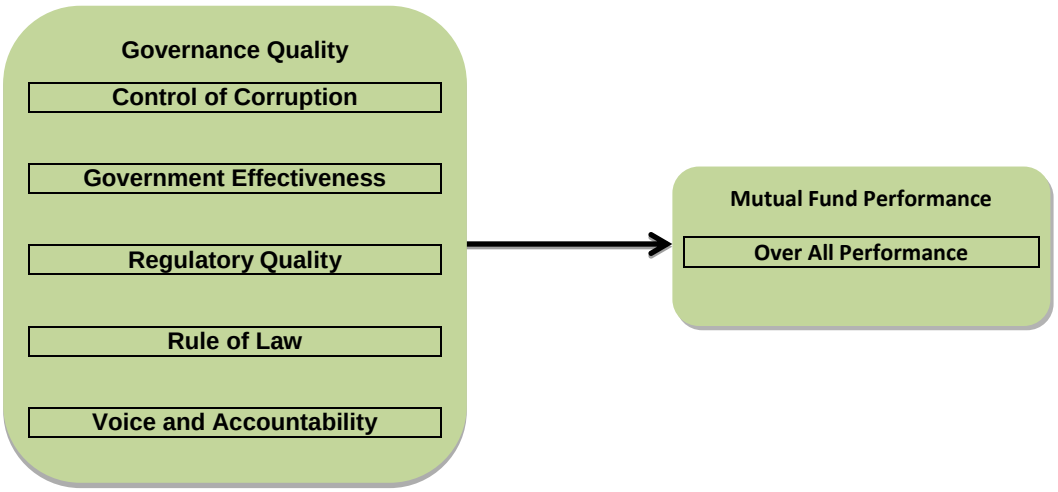

Fig. 1: Impact of Governance Quality on Mutual Fund Performance.

Table 1: Variable Description.

Variables	Labels	Description
Dependent Variables		
Mutual fund performance	Sharpe ratio	Investment returns in excess of the risk-free rate, relative to volatility.
Independent Variable		
Voice and Accountability		Citizen participation and governance
Rule of law		Fair and partial legal system
Government Effectiveness		quality of public service delivery
Regulatory Quality		Government formulates policies supporting private sector growth.
Control of Corruption		Government effectively curbs public sector corruption.
Control Variable		
Trade openness	Trade-to-GDP ratio	Country's degree of integration into the global economy through imports and exports.
GDP		Total value of goods and services produced within a country's borders.
KSE100 Index	KSE100	Market capitalization-weighted index that tracks the performance of the top 100 companies.
COVID-19(Dummy)	COVID-19	Dummy Variable

indicators and economic variables on mutual fund performance (MFP) over time. Specifically, the model evaluates how factors such as governance quality, macroeconomic conditions, market development, and external shocks influence the performance of mutual funds in a panel data setting. Each of the five equations isolates a distinct governance indicator Control of Corruption (CC), Government Effectiveness (GE), Regulatory Quality (RQ), Rule of Law (RL), and Voice and Accountability (VA) to assess its unique effect on mutual fund performance while controlling for other relevant factors.

In each equation, mutual fund performance (MFP) is the dependent variable, and the core independent variable of interest is one of the governance indicators. This allows for an in-depth understanding of which aspect of institutional quality most significantly affects fund outcomes. The models also include a consistent set of control variables: Trade Openness (TO), Gross Domestic Product (GDP), the Karachi Stock Exchange (KSE) index, and a variable capturing the effects of the COVID-19 pandemic. Trade openness is included to reflect the influence of global market exposure on mutual funds, while GDP acts as a proxy for overall economic health. The KSE index represents local capital market conditions, which are vital for mutual fund activity. The COVID-19 variable is included to control for the unprecedented economic disruptions caused by the pandemic.

The models are structured as linear regression equations, suitable for panel data analysis. This structure allows for the identification of both cross-sectional and time-series variations. Each coefficient (β) in the model represents the marginal effect of the respective independent variable on mutual fund performance. A positive and significant coefficient for any governance indicator would suggest that improvements in that dimension of governance are associated with better mutual fund performance, implying that good governance contributes to investor confidence and market efficiency. Conversely, a negative coefficient would imply a detrimental effect.

Overall, these models provide a framework to empirically test the hypothesis that stronger institutional quality and favorable macroeconomic conditions enhance mutual fund performance, particularly in emerging markets like Pakistan.

4 | RESULTS

4.1 Primary Results

Table 2 represents that the descriptive analysis of this research study. The mean value of the overall performance is -0.86. The standard deviation of overall performance is -0.3. The mean value of the CC, GE, RQ, RL and VA are -.93, -.663, -.708, -.735 and -.789.

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Overall performance	270	-.086	.03	-.152	-.059
Cc	270	-.93	.242	-1.639	-.802
Ge	270	-.663	.098	-.799	-.439
RQ	270	-.708	.075	-.886	-.612
RL	270	-.735	.062	-.856	-.659
Va	270	-.789	.07	-.878	-.694
Trade openness GDP	270	4.675	8.098	-2.871	25.556
GDP	270	4.11	1.923	-.9	6.1
kse100index	270	14.78	22.8	-19.1	52.2
Covid	270	.3	.459	0	1

This table presents the correlation coefficients among ten variables, with the corresponding p-values shown in parentheses. The variables include overall performance, control of corruption (CC), government effectiveness (GE), regulatory quality (RG), rule of law (RL), voice and accountability (VA), trade openness as a percentage of GDP, GDP itself, the KSE-100 index, and the impact of COVID-19.Starting with overall performance, it has a strong and statistically significant positive correlation with regulatory quality (r = 0.641, p< 0.01), voice and accountability (r = 0.492, p< 0.01), and the KSE-100 index (r = 0.271, p< 0.01). Interestingly, it shows a significant negative correlation with control of corruption (r = -0.186, p< 0.01), rule of law (r = -0.320, p< 0.01), and COVID-19 impact (r = -0.255, p< 0.01), suggesting that higher perceived corruption control or stricter rule of law might be linked with lower performance in this context, which could reflect counterintuitive dynamics or measurement issues. Government effectiveness (GE) correlates positively with rule of law (r = 0.691, p< 0.01) and trade openness (r = 0.570, p< 0.01), but negatively with regulatory quality (r = -0.406, p< 0.01) and voice and accountability (r = -0.410, p< 0.01), indicating complex institutional relationships. Regulatory quality is positively associated with voice and accountability (r = 0.712, p< 0.01), but negatively correlated with control of corruption, government effectiveness, rule of law, trade openness, and especially COVID-19 impact (r = -0.844, p< 0.01). The latter suggests that higher regulatory quality may have buffered negative effects from the pandemic. Voice and accountability show strong positive links with regulatory quality and the KSE-100 index, but are negatively linked to COVID-19 and trade openness. Trade openness itself has significant negative associations with regulatory quality and voice and accountability, but a strong positive correlation with the impact of COVID-19 (r = 0.792, p< 0.01), implying that more open economies may have been more vulnerable to pandemic shocks. GDP has relatively weaker and less consistent relationships. It correlates positively with rule of law and voice and accountability, and negatively with trade openness. The KSE-100 index is positively linked with overall performance, regulatory quality, and voice and accountability, but negatively with rule of law and trade openness. Finally, the COVID-19 variable exhibits the strongest correlations across the table: highly positive with government effectiveness, rule of law, and trade openness, but strongly negative with regulatory quality, voice and accountability, and regulatory quality.

Table 4 presents the results of multi-collinearity diagnostic using the Variance Inflation Factor (VIF). VIF values measure how much the variance of a regression coefficient is inflated due to multi-collinearity with other variables. A VIF above 10 is generally considered problematic, indicating severe multi collinearity, while values below 5 are typically acceptable. In this table, all variables have VIFs below6, suggesting that multi collinearity is not a major concern in the regression models. The highest VIF is for Trade Openness (TO) at 5.454, which is near the upper threshold but still manageable. The lowest VIF is for the KSE 100 index (1.066), indicating minimal collinearity. The mean VIF of 2.713 further supports the

Table 3: Pair wise correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) overall perform~ e	1.000									
(2) CC	-0.186*	1.000								
(3) GE	0.153*	0.279*	1.000							
(4) RG	0.641*	-0.312*	-0.406*	1.000						
(5) RL	-0.320*	0.388*	0.691*	-0.438*	1.000					
(6) VA	0.492*	-0.322*	-0.410*	0.712*	-0.574*	1.000				
(7) trade openness GDP	0.029	0.299*	0.570*	-0.573*	0.416*	-0.559*	1.000			
(8) GDP	-0.118	0.079	0.037	-0.009	0.166*	0.253*	-0.537*	1.000		
(9) kse100index	0.271*	-0.077	-0.088	0.156*	-0.506*	0.411*	-0.208*	0.106	1.000	
(10) covid	-0.255*	0.287*	0.786*	-0.844*	0.566*	-0.668*	0.792*	-0.174*	-0.094	1.000

*** p<0.01, ** p<0.05, * p<0.1

conclusion that multi-collinearity is within acceptable limits. Therefore, the regression results are unlikely to be distorted by inter-correlated independent variables.

Table 4: Variance Inflation Factor

Variables	VIF	1/VIF
CC	1.21	.826
GE	2.871	.348
RQ	4.072	.246
RL	2.692	.372
VA	2.491	.401
TO	5.454	.183
GDP	2.029	.493
KSE 100 index	1.066	.938
COVID-19	3.605	.277
Mean VIF	2.713	

4.2. Benchmark regression

In model 1 a significant negative impact of CC (-0.029, p<0.01) on the dependent variable. Trade openness (TO), GDP, KSE index all show positive significant effects. COVID-19 has a negative effect, statistically significant. Policymakers should prioritize anti-corruption reforms as corruption harms economic outcomes. Investor**s** may perceive high corruption as a risk, reducing capital inflows .Companie**s** face uncertainty and increased costs in corrupt environments. In model 2GE has a strong positive effect (0.334, p<0.01) on the outcome variable. TO and KSE remain significantly positive; GDP is insignificant here.COVID-19 shows a larger negative impact (-0.117, p<0.01).Policymakers must enhance government service delivery and efficiency. Investors gain confidence in stable, effective governance. Companies benefit from smoother regulatory and administrative processes. In model 3 RQ has the highest positive impact (0.559, p<0.01) among governance variables. All control variables remain positively significant.COVID-19 has a positive coefficient here (0.029, p<0.01), possibly reflecting post-crisis recovery mechanisms. Policymaker**s** should improve rule-making and enforcement clarity. Investors respond positively to predictable, transparent regulations. Companies can operate more efficiently in a well-regulated environment. In model 4 RL has a small but significant positive effect (0.044, p<0.05).TO, GDP, KSE index retain strong positive significance. COVID-19 remains positively significant (same as Model 3).Policymakers must strengthen legal institutions and contract enforcement. Investors feel more secure in countries with strong legal systems. Companies benefit from reduced legal disputes and enforceable rights. In model 5 VA has a significant positive impact (0.213, p<0.01).TO and KSE index continue to support economic outcomes.COVID-19 returns to a negative effect (-0.035, p<0.01). Policymakers should foster free media and citizen engagement. Investors prefer open democracies with accountable institutions. Companies operate better where there's transparency and public trust.

4.3. Robustness Analysis

In model 1 CC negatively affects mutual fund performance (-0.029, p<0.01). Control variables (TO, GDP, KSE index) are all positively significant. COVID-19 has a negative and significant impact (-0.064, p<0.01). Policymakers should tackle corruption to enhance market credibility. Investors view corruption as a key risk, lowering fund inflows. Companies face higher costs and regulatory uncertainty in corrupt settings. In model 2 GE has a strong positive influence on mutual fund performance (0.334, p<0.01).TO and KSE index are positively significant, but GDP is not. COVID-19's negative effect increases to -0.117 (p<0.01). Policymakers must enhance the efficiency and quality of governance. Investors are attracted to countries with capable governments. Companies benefit from efficient public services and reduced bureaucracy. In model 3 RQ shows the strongest positive effect among all variables (0.559, p<0.01). All control variables (TO, GDP, KSE) remain significantly positive. COVID-19 has a positive effect (0.029, p<0.01), possibly reflecting post-crisis regulation boosts. Policymakers should prioritize transparent and efficient regulation. Investors see regulatory quality

Table 5: Impact of Governance Quality on Mutual Fund Performance with OLS.

Variables	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coef.	P-value	Coef.	P-value	Coef.	P-value	Coef.	P-value	Coef.	P-value
CC	-.029***	(0.000)								
GE			.334***	(0.000)						
RQ					.559***	0.000				
RL							.044***	0.027		
VA									.213***	0.000
TO	.004***	(0.00)	.003***	0.000	.003***	0.000	.003***	0.000	.003***	0.000
GDP	.004***	(0.000)	-.001	.381	.005***	0.000	.005***	0.000	.001***	.221
KSE 100 index	.00047***	(0.000)	.001***	0.000	.00027***	0.000	.00027***	0.000	.00027***	0.000
COVID-19	-.064	(0.000)	-.117***	0.000	.029***	0.000	.029***	0.000	-.035***	0.000

Table 6: Impact of Governance Quality on Mutual Fund Performance with FGLS.

Variables	Model 1		Model 2		Model 3		Model 4		Model 5	
	Coef.	P-value	Coef.	P-value	Coef.	P-value	Coef.	P-value	Coef.	P-value
CC	-.029***	(0.000)								
GE			.334***	(0.000)						
RQ					.559***	0.000				
RL							..287**	0.026		
VA									.213***	0.000
TO	.004***	(0.00)	.003***	0.000	.003***	0.000	.004***	0.000	.003***	0.000
GDP	.004***	(0.000)	-.001	.375	.005***	0.000	.004***	.002	.001	.215
KSE index 100	.00047***	(0.000)	.001***	0.000	.00027***	0.000	.00027***	0.000	.00027***	0.000
COVID-19	-.064	(0.000)	-.117***	0.000	.029***	0.000	.06***	0.000	-.035***	0.000

as a key indicator of stability. Companies gain confidence and clarity under good regulation. In model 4 RL has a moderate positive effect (0.287, p<0.05). All controls are significant and positive, especially TO and KSE index. COVID-19 impact is now positive and significant (0.06, p<0.01), indicating legal resilience. Policymakers must reinforce legal frameworks and enforcement. Investors value strong legal systems that protect rights and contracts. Companies operate more securely where laws are enforced fairly. In model 5 VA has a significant positive impact (0.213, p<0.01) on fund performance. GDP becomes insignificant, but TO and KSE index stay positively significant. COVID-19 has a negative effect (-0.035, p<0.01), suggesting lingering investor concern. Policymakers should promote transparency, civic engagement, and press freedom. Investors trust open and democratic systems with institutional checks. Companies perform better in accountable environments with stakeholder trust.

5. Conclusion

This study aimed to examine the relationship between governance quality and mutual fund performance, focusing on how various dimensions of governance influence fund outcomes across selected regions. By incorporating governance indicators such as control of corruption, government effectiveness, regulatory quality, rule of law, and voice and accountability, we were able to explore both institutional and political dimensions of national governance and their effects on fund performance. The findings were interpreted through regression analysis, with attention to the sign, significance, and direction of the relationships, as indicated by p-values. The negative and significant impact of control of corruption on mutual fund performance indicates that as control of corruption increases, mutual fund performance tends to decline in the observed context. This study also finds a positive and significant impact of government effectiveness, regulatory quality, rule of law and voice and accountability on mutual fund performance. These governance indicators contribute to a stable and transparent institutional environment, which enhances investor confidence and facilitates better fund management practices. Government effectiveness ensures efficient public services and policy implementation, regulatory quality supports sound financial regulation, the rule of law guarantees contract enforcement, and voice and accountability empower stakeholders through transparency and civic engagement. The findings imply that reducing corruption is crucial, as its negative and significant impact on mutual fund performance suggest it undermines investor trust and market efficiency. Conversely, the positive and significant effects of government effectiveness, regulatory quality, rule of law, and voice and accountability highlight the importance of strong governance structures. For policymakers and regulatory bodies, this means prioritizing anti-corruption measures and strengthening institutional quality to enhance financial sector stability and attract mutual fund investments. Fund managers should also consider governance quality as a critical factor in risk assessment and portfolio strategy.

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