

# Comparative Analysis of Sharia Stock Mutual Fund Performance in Indonesia and Malaysia

Galuh Athira Hasanah<sup>1,\*</sup> A Dewantoro Marsono<sup>2</sup>

<sup>1,2</sup> Faculty of Economics and Business, Perbanas Institute, Jakarta, Indonesia

\*Corresponding author. Email: galuhathira@gmail.com

## ABSTRACT

The purpose of this study is to determine the difference between Indonesian sharia equity mutual fund and Malaysian equity mutual funds. The population used for this study were all sharia equity mutual funds registered with the Indonesian Financial Services Authority (OJK) and Malaysian Securities from 2015 to 2018. The technique sample in this study is purposive sampling method. After sampling the sharia equity mutual funds registered with the OJK and Securities Malaysia, this study used a sample of 17 Indonesian Sharia stock mutual funds and 17 Malaysian Sharia stock mutual funds in an observation period of 4 years, namely the 2015-2018 period. This study uses secondary data in the form of annual financial statements of Investment Management companies registered with OJK and Securities Commission Malaysia with the end of the financial year on December 31, 2015 to December 31, 2018. The analysis used in this study is normality test to determine parametric or non-parametric analysis. Fund performance measured by the Sharpe index, Treynor index, and Index Jensen. The results of this study that the performance of sharia equity funds in Indonesia and in Malaysia based on the Sharpe method has a evident difference, whereas based on the Jensen and Treynor methods the sharia equity funds in Indonesia and Malaysia have no evident differences, for the performance when compared with the Sharpe method, the performance of Malaysian Sharia stock mutual funds is better than the performance of Indonesian Sharia stock mutual funds, when compared with Treynor index method Indonesian and Malaysian Sharia mutual funds has good performance, when compared with the Jensen method, the performance of Malaysian Sharia stock mutual funds is better than the performance of Indonesian Sharia stock mutual funds.

**Keywords:** Performance of mutual funds, Sharpe, Treynor, Jensen.

## 1. INTRODUCTION

Small and regular investors or investors who do not have much time and expertise are interested in mutual funds. Mutual funds are funds collected from investors in various amounts then the investment managers will manage the funds in the fields of investment and capital markets. The investment instruments such as but not limited are stocks, bonds, Bank Indonesia Certificates, and others.

Mutual funds have two sub categories, conventional mutual funds and Sharia mutual funds. Sharia mutual funds operate based on the provisions and principles of Sharia, both between investors who own assets and investment managers, as well as between investment managers and investment users. Sharia mutual funds according to the National Sharia Council fatwa number 20/DSN-MUI/IV/2001 are mutual funds that operate

according to the provisions and principles of Sharia, either in the form of a contract between the investor as the owner of the property (sahib al-mal/Rabb al Mal) and investment managers as representatives of shahib al-mal, as well as between investment managers as representatives of shahib al-mal and investment users.

Conventional mutual funds and Sharia mutual funds are not much different. The difference between Sharia mutual funds and conventional mutual funds lies in the process of selecting the assets that make up the portfolio. Conventional mutual funds only use the level of profit and risk in managing their investment portfolio. Meanwhile, sharia mutual funds must consider the halalness of a financial product in addition to the level of returns and risk. Not only that, sharia mutual funds in their management do not allow the use of investment strategies that lead to speculation. Therefore, the difference in portfolio management can result in

differences in performance between conventional mutual funds and Sharia mutual funds.

Indonesia is the largest Muslim population in the world does not necessarily make Sharia mutual funds in Indonesia increase rapidly. Indonesian Sharia mutual funds are still inferior to Malaysia and Saudi Arabia in terms of managed funds [1].

Malaysia continues to be the leader in the region, with shariah mutual fund assets increasing 20% to \$28.4bn for the year 2017. The distend the second market in Indonesia, where total shariah mutual fund assets increased 90% to about \$2bn in 2017 [2]. When compared to Indonesia, according to the world bank, around 226.2 million Indonesians are Muslim and Indonesia's sharia mutual fund and managed funds, which are equivalent to US\$ 2 billion, are only third in the world or second in ASEAN. Far below Malaysia, with a population of only 31 million people [2].

The development of sharia mutual funds in Indonesia shows an increase from year to year. The data at the OJK shows there are 243 mutual funds in circulation as of April 2019, with a NAV of Rp 35,378 billion. [3] finds that Sharia mutual funds in Indonesia provide higher returns than market returns. The results of this study explain the interest of investors to invest in Sharia mutual funds. However, it is still far from conventional mutual funds more than 1800 mutual funds in circulation and a NAV of Rp 470 billion. The Sharia mutual funds have shown a good development from year to year, as in Figure 1.



Figure 1 Growth of Sharia Mutual Funds in Indonesia.

Similar to Indonesia, in Malaysia, Sharia mutual funds have developed quite well from year to year. As in Figure 2, the development of Sharia mutual funds in Malaysia, the NAV (net asset value) from 2016-April 2019 experienced a moderate increase. In 2016 the NAV was about RM 60.92 trillion, and in April 2019, the NAV of Sharia mutual funds Malaysia was RM 93.02 Trillion with 227 Sharia mutual fund products.

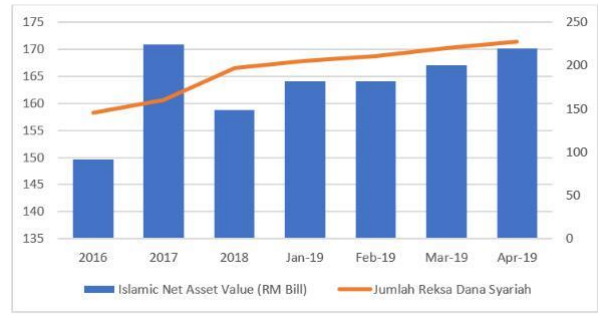


Figure 2 Growth of Sharia Mutual Funds in Indonesia.

Indonesia and Malaysia are two of the few countries that apply fairly stringent screening criteria to form Sharia mutual funds. In Indonesia, the selection process is carried out by the *Dewan Syariah Nasional* dan the *Majelis Ulama Indonesia* (DSN-MUI), while in Malaysia it is carried out by the Shariah Advisory Council (SAC).

Mutual funds consist of four types, namely equity funds, mixed mutual funds, fixed income mutual funds, and money market funds. However, most of the investors are interested in equity funds. The returns on equity funds are higher compared to other types of mutual funds. Based on data from the Financial Services Authority (OJK) of December 2018, the amount of mutual fund management for equity funds reached Rp120 trillion for conventional and 8.6 trillion for sharia.

Mutual fund performance benchmarks are the amount of Net Asset Value (NAV) and the profits generated by the mutual fund. NAV is the price of a mutual fund portfolio per unit. The value of NAV finds by the total investment value plus cash held minus debt costs from operational activities must be paid. An increase in NAV indicates an increase in the investment value of the unitholder and otherwise. Every investment manager always tries to increase the NAV of mutual funds as their responsibility to provide a high enough return for investors [4].

Mutual funds are one of the investment instruments that are starting to be in demand by investors. To choose the right mutual fund, investors look at the performance of the mutual fund portfolio. Knowing the rate of return and risk of a portfolio can be seen from the side of the portfolio's performance. Analysing the performance of a portfolio, investors can make comparisons between one mutual fund and make investment decisions.

## 2. PROBLEMS AND METHODS

In order to understand the potential returns of both Indonesia and Malaysia shariah mutual funds, we measure their performance using Sharpe Index, Treynor Index, and Jensen Index. Later we compare their performance respectively.

To calculate the performance of mutual funds, we use several methods. First method is mutual funds returns.

$$R = \frac{NAV_t - NAV_{t-1}}{NAV_{t-1}}$$

Second method is Sharpe method, the Sharpe index to measure the risk premium for each risk unit in the portfolio.

$$\hat{S}_p = \frac{\bar{R}_p - \bar{RF}}{\sigma_{TR}}$$

Third method is Treynor method, this index is often referred to as the reward to volatility ratio. Portfolio performance related to the level of portfolio return with the magnitude of the risk of the portfolio. The difference with the Treynor index uses the security market line as a benchmark, and not the capital market line like the Sharpe index. The assumption used by Treynor is that the portfolio is well diversified so that the risk that is considered relevant is systematic risk.

$$\hat{T}_p = \frac{\bar{R}_p - \bar{RF}}{\beta_p}$$

The fourth method is Jensen method, the Jensen index is an index that shows the difference between the actual rate of return obtained by the portfolio and the expected rate of return if the portfolio is on the capital market line.

$$\hat{J}_p = \bar{R}_p - [\bar{RF} + (R_M - \bar{RF}) \beta_p]$$

The population used for this study were all sharia equity mutual funds registered with the Indonesian Financial Services Authority and Malaysian Securities from 2015 to 2018. The total population of the study was those registered with the Indonesian Financial Services Authority during 2015-2018 as many as 41 sharia equity mutual funds, while for Malaysia, there were 97 sharia mutual fund products registered during 2015 – 2018 at Securities Malaysia.

The sample in this study was selected using purposive sampling method. The criteria for selecting a sample are:

1. The mutual funds that are sampled are sharia equity mutual funds.
2. Sharia equity mutual funds that are actively operating from January 2015 – December 2018.
3. Sharia mutual funds that publish monthly NAV reports for the period January 2015 – December 2018.

The data collection method used in this research is the documentation method. The collecting secondary data from the annual financial statements of investment management companies registered and published by the

Indonesian Financial Services Authority and Securitas Malaysia as well as Bloomberg.

The data tested to determine parametric or non-parametric analysis, if the data is normally distributed then the hypothesis analysis used is an independent sample t-test. If the data is not normally distributed, then the Man-Whitney test is used. To test the normality of the data we use the Kolmogorov-Smirnov method. If the normality test has a significance > 0.05 then the data is normally distributed, vice-versa.

To test the hypothesis, we used the independent sample t-test. The hypotheses are whether there are differences between variables, with the following test criteria:

1. If the significance level is > 0.05, it means that there is a similarity of variance between groups or which means that it is homogeneous.
2. If the significance level is <0.05, it means that there is no similarity in variance between groups.

### 3. RESULTS AND DISCUSSION

The sample of this study was 34 mutual fund products, consisting of 17 Indonesian sharia equity mutual fund products and 17 Malaysian sharia equity mutual fund products.

#### 3.1. Comparison of Indonesian and Malaysian Sharia Equity Funds with the Sharpe Method

Based on the independent sample t-test, the performance of Indonesian and Malaysian mutual funds using the Sharpe method has a t-value of -3.689 with a significance of 0.0003 <0.05. The t-value indicates a difference in sharia equity mutual fund performance between Indonesian and Malaysian using the Sharpe method. Compared with the Sharpe method, the performance of Malaysian Sharia stock mutual funds is better than the performance of Indonesian Sharia stock mutual funds.

#### 3.2. Comparison of Indonesian and Malaysian Sharia Equity Funds with the Treynor Method

In the independent sample test, the performance of Indonesian and Malaysian mutual funds using the Treynor method has a t-value of 1.431 with a significance of 0.1548 > 0.05. The t-value indicates the difference in the performance of Sharia equity mutual funds between the performance of Indonesian and Malaysian Sharia mutual funds using the Treynor method. The performance of Sharia equity mutual funds between Indonesia and Malaysia does not has a significant difference. The performance of Indonesian and Malaysian Sharia mutual funds when calculated using the Treynor method has good performance.

### **3.3. Comparison of Indonesian and Malaysian Sharia Equity Funds with the Jensen Method**

Based on the independent sample t-test, the performance of Indonesian and Malaysian mutual funds using the Jensen method has a t-value of -1.547 with a significance of  $0.1242 > 0.05$ . This value indicates a different performance of Indonesian and Malaysian sharia equity mutual funds using the Jensen method. Compared with the Jensen method, the performance of Malaysian Sharia stock mutual funds is better than the performance of Indonesian Sharia stock mutual funds.

## **4. CONCLUSION**

This study aims to determine whether there are differences between Indonesian and Malaysian sharia equity mutual funds. The conclusions are:

1. The performance of Sharia equity mutual funds in Indonesia and Malaysia based on the Sharpe method has a significant difference.
2. The performance of Sharia equity mutual funds in Indonesia and Malaysia based on the Treynor method does not have a significant difference.
3. The performance of Sharia equity mutual funds in Indonesia and Malaysia based on the Jensen method does not have a significant difference.

## **AUTHORS' CONTRIBUTIONS**

The contribution results of this research are to the development of financial management science, especially in the investment field.

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