CHAPTER 5
CONCLUSION AND RECOMMENDATIONS

5.1 CONCLUSION

The research about Malaysian unit trust industry is not new. Several studies have been carried out to promote its acceptance and encourage the participation among the retail and corporate investors. Differ from past researches done, this research tries to compare two types of unit trust namely Islamic and conventional unit trust.

The objective of this research is to determine the similarities and differences between Islamic and conventional unit trust. Besides, we try to evaluate the performance of these two types of unit trust to identify which fund performs better than the other. Since there is a widely spread assumption about the inferiority of Islamic financial product including unit trust, this research tries to find whether this assumption is true or not.

From the review of literature, we find that Islam as a way of life has not only approved investment through unit trust market but also encourage every muslim to invest in it as long as all the Islamic principles are adhered to.

The remarkable differences between the Islamic and conventional financial products, which include the unit trust, arise from its philosophy and ethics. The existence of the Islamic financial system is based on the principles and Islamic philosophy as a whole. Western dichotomy, which stated, "Give unto Caesar what is Caesar's, and give unto God what is God's" is prohibited in Islam. A Muslim's role as a *Khalifah* (leader) does not give him an absolute entitlement upon his wealth. He is acting only as a representative in managing the wealth and is subjected to several Islamic principles. In addition, he is required to give away a proportion of his wealth to those who are entitled to it. This means that they cannot make the decision solely based on "bottom line consideration".

On the other hand, the conventional system is based on capitalism and separation of religion from other daily life activities. The owner of the wealth can freely manage their assets without any restriction and prohibition.

The other significant criterion of the Syariah fund is the abolishment of interest or *Riba*. Hence, all the stocks and elements that is related to *Riba* must be purified and excluded from the fund. In order to ensure the fund activities are aligned with the *Syari'ah* requirements, a Syariah Panel is established by each management company. The fund managers make the decision about the investment of the fund based on the advice given by the panel.

Beside the differences, there are several similarities between these two systems. As mentioned in chapter two, the similarities among others are regulations, the fund manager, and organizations, which monitor the fund activities and overall industry. The similarities exist mainly because of the early operation of the conventional unit trust i.e. about two decades before the first Islamic fund was introduced.

In terms of performance, as we saw in chapter four, the Islamic unit trust performs as good as the conventional unit trust since the t-test result fails to reject H_0. The restrictions in Islamic law such as prohibition in investing in non-permissible stocks do not affect the performance of the fund as long as the fund managers are able to enhance the fund value. The restriction does affect the diversification of the Islamic unit trust as compared to the conventional, but since the permissible stocks are currently dominating the stock market at more than 70% of the overall stock traded, the difference in diversification between these two types of unit trust is not so obvious. In addition, the risk of the fund that is measured by standard deviation and beta coefficient shows that the Islamic funds have lower risk than a conventional one.

Consistent with the past studies, the findings of this study shows that most of the funds in the sample could not outperform the market. After incorporating risk (Sharpe Index) there are only three out of sixteen funds that have better performance than the market even though the return shows that more than 50 percent of the funds in the sample have better return as compared to the market. Unfortunately, there is no single fund that is able to outperform risk free return based on three months Treasury Bills. Thus as a whole, unit trust is still unable to achieve its objective in getting higher return than risk free and contradicts general assumption, which stated that the higher the risk the higher the return.

Based on the finding, we conclude that the Islamic unit trust is as comprehensive and as viable as the conventional unit trust and has potential to become a main product in the industry. However due to the limited size of fund, the Islamic unit trust particularly has yet to be an efficient vehicle in channeling capital from households into the financial market. Thus, various parties must cooperate closely in developing the Islamic unit trust as a part of the industry as a whole.

5.2 RECOMMENDATION

1. The awareness among the public should be enhanced to increase their participation in the unit trust industry in general, specifically the Islamic unit trust. Clarifications about the concept of the Islamic unit trust that emphasize on the responsibility as a muslim should be carried out by the authorities and fund managers. Several steps can be taken in order to achieve the objective among others through seminars, workshops, publications, advertisements, and religious sermons (*Khutbah*).

2. To inculcate the habits of investing in unit trust in addition to the saving campaign among school children so that they can be exposed to this type of investment at an early age.

3. The introduction of a financing scheme to help investors to finance their investment in Islamic unit trust similar to the existing financial scheme to help Bumiputra participation in Amanah Saham Nasional.

4. To attract more investors to participate in the Islamic unit trust, a new marketing strategy must be formed. Apart from aggressive marketing strategies by employing more experienced agents or representatives, strategic alliance is also one of the strategic approaches, which can be implemented. Through such an alliance, a combination of two products from two different companies is simultaneously offered to the investors. For example insurance coverage can be offered for those who invest in unit trust. Even though such benefit has yet to be widely popularized, there are management companies, namely, Hijrah Unit Trust and ASM Mara Unit Trust management Berhad that offer the Takaful coverage to their investors. This can provide advantage to the unit holders whereby upon their death, their beneficiaries are not only entitled to the outstanding balance of the investment but also the Takaful coverage provided. The win-win situation from an alliance, which is formed between the two companies, could lead towards long-term profitability. Beside that, other incentives such as *Khairat Kematian* (death fund) coverage can also be provided to the investors' legal beneficiaries.

5. As we mentioned earlier the fluctuations of the stock market would directly affect the performance of the unit trust especially the equity-based unit trust. As the overall market falls, the return of a unit trust can also decline. The uncertainty of the performance is reduced by reducing the reliance of the unit trust upon equity. Since the demand of debt financing in this

country is high the unit trust that is based on fixed income securities should be widely explored. Until June 2001 there are only seven fixed income funds in the market including one Islamic bond fund. As compared to the equity fund, the fixed income fund has a relatively more stable return especially during economic downturn. The introduction of more fixed income funds will reduce the dependence of local industries upon international fund from the off shore market and the other foreign intermediaries.

6. The authorities and the management companies involved should work together to prove that the Islamic unit trust is as viable as conventional or even more. New Islamic management companies should learn from other established companies or appoint external managers to help them in managing their investment activities. The good performance shown will indirectly promote the public and corporate investors' awareness of the necessity and profitability in investing in unit trust.