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## ABSTRACT

The objective of this research is to assess the growth, development and performance of the Islamic unit trust in Malaysia for almost a decade of its operation in the market. The growth and development of the sector is analysed using several indicators and compared with the overall unit trust industry. It is then followed by a risk-adjusted performance analysis of the Islamic funds based on three indices, namely the Adjusted Sharpe Index, Treynor Index and Adjusted Jensen Alpha. The analysis also includes adherence of risk and return characteristics of the funds to the stated objectives, the degree of risk diversification and the funds' consistency of performance over time. The findings of this study show that the Islamic unit trust sector has experienced tremendous growth for the past decade except during the Asian financial crisis in 1997 and in 1999. The superior growth of the Islamic unit trust sector as compared to the industry had in turn increased the market share of the sector in all of the indicators overtime and becoming more significance as an acceptable investment instrument. However, in term of the Islamic funds' performance, during the period of January 1993 to June 2002, it is found that the Islamic funds had performed below expectations and unable to outperform the market portfolio with RHB Islamic Index being the proxy. Moreover, all of the Islamic funds as well as the market portfolio returns were substantially lower than the risk free returns. In addition, the risk-return characteristics of the funds seems to be significantly inconsistent with the stated objectives and the portfolios were poorly diversified. Nevertheless, when compared to the market portfolio, Islamic unit trust is found to be less risky, hence offering capital security to investors. Finally, there is considerable growth prospects for the sector in particular and the industry as a whole since it is still far from reaching its critical mass.

# CONTENTS

<b>Contents</b>	<b>Page</b>	
Acknowledgement	i	
Abstract	ii	
Contents	iii	
List of Tables	vi	
<b>Chapter 1</b>	<b>Introduction</b>	
1.1	Background	1
1.2	Issues Pertaining Islamic Unit Trust in Malaysia	4
1.3	Purpose of the Study	7
1.4	Scope of the Study	7
1.5	Organization of the Study	8
<b>Chapter 2</b>	<b>An Overview of the Unit Trust Industry in Malaysia</b>	
2.1	Introduction	10
2.2	The Structure of Unit Trust Scheme	11
2.3	Types of Unit Trusts	14
2.4	Development of Unit Trust Industry In Malaysia	18
2.5	The Islamic Unit Trust Schemes	25
2.6	Syariah Advisory Council (SAC) of the Securities Commission	26
2.7	Syariah Committee / Syariah Consultant	28
2.8	Syariah Approved Securities and Some Related Issues	29
2.9	Islamic Index as a Benchmark	35
<b>Chapter 3</b>	<b>Literature Review</b>	
3.1	Introduction	38
3.2	Early Empirical Studies of Unit Trusts and Performance Measurement	38
3.3	Empirical Study in the West	41
3.4	Empirical Studies of Unit Trusts in the Region	43
3.5	Empirical Studies on Islamic Unit Trust in Malaysia	46
<b>Chapter 4</b>	<b>Research Methodology</b>	
4.1	Sources of Data	50
4.2	Sampling : Fund Selection Techniques	51
4.3	Data Analysis Techniques	53
	4.3.1 Growth Analysis	53
	4.3.2 Risk-Adjusted Performance Analysis	54

<b>Chapter 5</b>	<b>Analysis and Findings</b>	
5.1	Growth and Development of the Islamic Unit Trust in Malaysia	71
5.1.1	Background	71
5.1.2	Number and Size of Funds	72
5.1.3	Utilisation Ratio	74
5.1.4	Total Net Asset Value (NAV)	76
5.1.5	Market Share	79
5.1.6	Recent Development	81
5.1.7	A Brief Review on the Growth and Development of the Global Islamic Trust Funds Industry	84
5.2	Performance of the Islamic Unit Trust Schemes in Malaysia	
5.2.1	Overall Performance of the Sector	89
5.2.2	Individual Fund Performance	91
5.2.3	Comparison of the Islamic Unit Trust Performance with the Market Portfolio	93
5.3	Adherence of the Islamic Unit Trust Funds' Risk and Return Characteristics to Stated Objectives	95
5.3.1	Comparison of Unit Trusts Returns when Grouped According to Their Objectives	96
5.3.2	Comparison of Islamic Unit Trusts Systematic Risk (Beta) when Grouped According to Their Objectives	99
5.4	Risk Diversification Measure	100
5.5	Consistency of the Islamic Unit Trust Performance	103
5.6	Influence of Market Movement on Funds' Return (Additional)	106
<b>Chapter 6</b>	<b>Conclusion</b>	
6.1	Summary of the Findings	110
6.2	Implications	113
6.3	Challenges and Prospects	114
6.3.1	Overall Unit Trusts Industry	114
6.3.2	Development of Islamic Instruments	118
6.3.3	Increasing Market Demand	120
6.3.4	Investors Awareness	121
6.3.5	The Prospects	122
<b>Appendices</b>		
	Appendix 1: Funds Listing	
	Appendix 2 : List of Permissible Stocks in KLSE	
	Appendix 3 : RHB Islamic Index Component Stocks	
	Appendix 4 : List of All Islamic Unit Trust Funds in Malaysia	
	Appendix 5 : List of All Known Islamic Bond and Equity Funds	
	Appendix 6 : Summary of Results of Islamic Vs Market Portfolio	

- Appendix 7 : Summary of Yearly Funds Performance and the Individual Ranking of the Funds for the Period from July 1996 to June 2002 (using Adjusted Sharpe Index)**
- Appendix 8 : Yearly Regressions Results of the Influence of the Market Movement on the Funds Performance Returns**
- Appendix 9 : End of the Month Returns of All Islamic Funds in the Study Since Inception**

## LIST OF TABLES

<b>Table</b>	<b>Title</b>	<b>Page</b>
Table 2.1	The Unit Trust Industry in Malaysia	24
Table 2.2	Syariah Approved Securities According to Sector as of 26 April 2002	33
Table 4.1	List of Islamic Unit Trust Funds in the Sample	52
Table 4.2	Empirical Beta Values for Various Types of Funds	68
Table 5.1	Summary of Statistics of the Islamic Unit Trust Sector vis-à-vis Overall Unit Trust Industry in Malaysia	73
Table 5.2	Utilisation Ratio of Islamic Funds vs. the Industry	75
Table 5.3	Total Net Asset Value (NAV)	76
Table 5.4	Net Asset Value per unit (represented by unit buying price in RM) of Funds in the Study	78
Table 5.5	Market Share of Islamic Funds vis-à-vis Overall Unit Trust Industry	80
Table 5.6	List of PNB Managed Funds	81
Table 5.7	New Funds Rose via IPDS (in RM million)	83
Table 5.8	Selected Key Statistics of the Global Islamic Unit Trust Industry	85
Table 5.9	Growth of the Islamic Funds	85
Table 5.10	Total Assets of Islamic Funds	86
Table 5.11	Results of Standard Deviation, Beta, Adjusted Sharpe Index, Treynor Index, Adjusted Jensen's Alpha and the Individual Ranking of All the Islamic Funds (January 1993 to June 2002)	90
Table 5.12	A Comparison of the Performance of Islamic Unit Trust with the Market Portfolio (Based on Mean Index)	93
Table 5.13	A Comparison of the Performance of Islamic Unit Trusts with the Market Portfolio (Based on Number of Funds)	94
Table 5.14	Summary of Beta, Adjusted Sharpe Index, Treynor Index and Adjusted Jensen's Alpha of All the Islamic Funds Grouped According to Fund Objectives	96
Table 5.15	A Comparison of Mean Returns of Islamic Unit Trust Funds (Grouped According to the Fund Objective)	97
Table 5.16	A Comparison of Mean Beta Values of Islamic Unit Trust Funds (Grouped According to the Fund Objective)	100
Table 5.17	Risk Diversification of Islamic Unit Trust Funds Measured by R-Square	102
Table 5.18	Mean R-Square of Each Category of Fund	102
Table 5.19	Consistency of Performance of Islamic Unit Trusts Fund for the Period July 1996 to June 2002 as Measured by Spearman Rank Correlation Coefficient (Using Adjusted Sharpe Index)	104
Table 5.20	Selected Indicators of the Industry's Growth Prospect	107