

**A COMPARISON BETWEEN
ISLAMIC AND CONVENTIONAL BOND FUND'S
PERFORMANCE IN MALAYSIA**

KOO VON SIONG

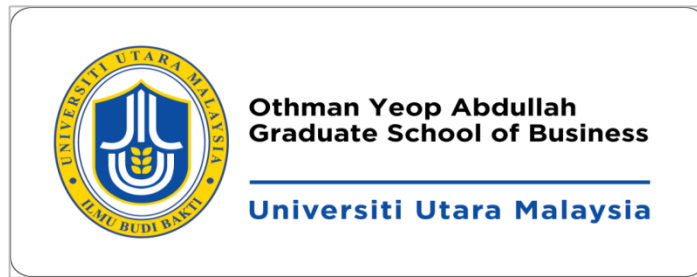
**MASTER OF SCIENCE (FINANCE)
UNIVERSITI UTARA MALAYSIA
April 2015**

**A COMPARISON BETWEEN
ISLAMIC AND CONVENTIONAL BOND FUND'S
PERFORMANCE IN MALAYSIA**

**By
KOO VON SIONG**

**Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
in Fulfillment of the Requirement for the Degree of
Master of Science (Finance)**

© 2015 Koo Von Siong. All Rights Reserved



PERAKUAN KERJA KERTAS PROJEK

(Certification of Project Paper)

Saya, mengaku bertandatangan, memperakukan bahawa
(I, the undersigned, certified that)

KOO VON SIONG (811990)

Calon untuk Ijazah Sarjana

(Candidate for the degree of) **MASTER OF SCIENCE (FINANCE)**

telah mengemukakan kertas projek yang bertajuk

(has presented his/her project paper of the following title)

A COMPARISON BETWEEN ISLAMIC AND CONVENTIONAL BOND FUND'S PERFORMANCE IN MALAYSIA

Seperti yang tercatat di muka surat tajuk dan kulit kertas projek

(as it appears on the title page and front cover of the project paper)

Bahawa kertas projek tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu dengan memuaskan.

(that the project paper acceptable in the form and content and that a satisfactory knowledge of the field is covered by the project paper).

Nama Penyelia

: **DR. NORSHAFIZAH BINTI HANAFI**

(Name of Supervisor)

Tandatangan

: _____

(Signature)

Tarikh

: **13 APRIL 2015**

(Date)

PERMISSION TO USE

In presenting this dissertation/project paper in partial fulfillment of the requirements for a Post Graduate degree from the Universiti Utara Malaysia (UUM), I agree that the Library of this university may make it freely available for inspection. I further agree that permission for copying this dissertation/project paper in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor(s) or in their absence, by the Dean of Othman Yeop Abdullah Graduate School of Business where I did my dissertation/project paper. It is understood that any copying or publication or use of this dissertation/project paper parts of it for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to the UUM in any scholarly use which may be made of any material in my dissertation/project paper.

Request for permission to copy or to make other use of materials in this dissertation/project paper in whole or in part should be addressed to:

Dean of Othman Yeop Abdullah Graduate School of Business
Universiti Utara Malaysia
06010 UUM Sintok
Kedah Darul Aman

ABSTRACT

The main objective for an investment is to curb inflation. Unit trust is one of common investment vehicle in Malaysia. The main purpose of this study is to compare the performance analysis on Islamic bond funds and Conventional bond funds in Malaysia. The performance of both funds was analyzed over a period of 48 months commencing from January 2011 to December 2014. The monthly returns of 20 bond funds, being 10 Islamic bond funds and 10 Conventional bond funds are extracted from Morningstar system. Performance of unit trust always influenced by risk and return. In this research, the fund performances are evaluated by using six performance measures namely mean return, standard deviation, beta, Treynor index, Sharpe index and Jensen index. The results of this study suggest that Islamic Bond Funds are outperformed the Conventional bond funds during the period of study. On the other hand, Conventional bond funds seem to have a lower risk than Islamic bond funds. Nevertheless, when both funds are compared by using t-Test and ANOVA, results displayed Islamic bond funds and Conventional bond funds have no difference in fund's performance. The findings are highly relevant to investors as well as fund managers.

Keywords: Islamic bond funds, Conventional bond funds, Performance

ABSTRAK

Tujuan utama pelaburan ialah untuk membendung inflasi. Dana, juga dikenali sebagai unit amanah, adalah salah satu pelaburan yang popular di kalangan rakyat Malaysia. Tujuan utama kajian ini adalah untuk membandingkan analisis prestasi di antara dana bon Islam dan dana bon Konvensional. Prestasi kedua-dua dana dianalisis untuk tempoh sepanjang 48-bulan bermula dari Januari 2011 sehingga Disember 2014. Pulangan bulanan sebanyak 20 dana bon, iaitu 10 dana bon Islam dan 10 dana bon Konvensional telah diambil dari sistem Morningstar. Prestasi dana bon sentiasa dipengaruhi oleh risiko dan pulangan. Dalam kajian ini, prestasi dana bon dinilai dengan menggunakan enam kaedah iaitu pulangan bulanan, sishan piawan, beta, indeks Treynor, Sharpe dan Jensen. Hasil kajian menunjukkan bahawa prestasi dana bon Islam lebih baik dari dana bon konvensional. Walau bagaimanapun, statistik menunjukkan dana bon konvensional mempunyai risiko yang lebih rendah daripada dana bon Islam. Akan tetapi, apabila kedua-dua dana berbanding dengan menggunakan t-Test dan ANOVA, hasil kajian menunjukkan kedua-dua dana bon tidak mempunyai perbezaan antara prestasi. Penemuan ini sangat bermakna kepada pelabur dan pengurus dana.

Katakunci : Dana bon Islam, Dana bon Konvensional, Prestasi Unit Amanah

ACKNOWLEDGEMENT

I would like to take this opportunity to express my gratitude to everyone who had contributed to the success of this thesis.

I would like to take this opportunity to express my sincere appreciation to my supervisor, Dr. Norshafizah binti Hanafi who has provided me the guidance, support, and encouragement to complete this research.

Besides my supervisor, I would like to thank all my lecturers for their advice and suggestion.

Last but not least, I am thankful for the encouragement and support given by my beloved family and friends.

TABLE OF CONTENTS

DESCRIPTION	PAGE
TITLE PAGE	
CERTIFICATION OF PROJECT PAPER	
PERMISSION TO USE	i
ABSTRACT	ii
ABSTRAK	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v
LIST OF TABLES	vii
LIST OF FIGURES	viii
CHAPTER 1 : INTRODUCTION	1
1.1. Background of Study	1
1.2. Introduction to Malaysia Bond Market	5
1.3. Bond Funds	9
1.4. Problem Statement	13
1.5. Research Questions	15
1.6. Research Objectives	15
1.7. Significance of Study	16
1.8. Scope and Limitations of the Study	16
1.9. Organization of the Thesis	17
 CHAPTER 2 : LITERATURE REVIEW	 18
2.1 Introduction	18
2.2 Underlying Theory of Portfolio Risk and Return	19
2.3 Portfolio Performance Measurement	29
2.4 Bond Fund Performance	31
2.5 Unit Trust Performance in Malaysia	32
2.6 Chapter Summary	34

CHAPTER 3 : METHODOLOGY	35
3.1 Introduction	35
3.2 Research Design	35
3.3 Data Collection and Sample Selection	36
3.4 Unit Trust Performance Measures	39
3.5 Hypothesis Development	43
3.6 Chapter Summary	43
 CHAPTER 4 : ANALYSIS AND FINDINGS	 44
4.1 Introduction	44
4.2 Results of the Study	44
4.3 Analysis of T-TEST & ANOVA	50
4.4 Chapter Summary	56
 CHAPTER 5 : CONCLUSION	 58
5.1 Introduction	58
5.2 Summary of the Study	58
5.3 Implications of the Study	60
5.4 Imitations	60
5.5 Recommendations for Further Research	61
 REFERENCES	 62
APPENDICES	66

LIST OF TABLES

Table	Description	Page
3.1	10 Islamic Bond Funds Inception Dates, Fund Size, Benchmark, and Years to Date	38
3.2	10 Conventional Bond Funds Inception Dates, Fund Size, Benchmark, and Years to Date	38
3.3	Overall MGS/2015 yield from Bond Pricing Agency Malaysia	39
4.1	Descriptive Statistics of Monthly Performance Measurement for Islamic bond funds from January 2011- December 2014	45
4.2	Descriptive Statistics of Monthly Performance Measurement for Conventional bond funds from January 2011- December 2014	47
4.3	Mean return for Islamic bond funds and Conventional bond funds	50
4.4	Standard Deviation (SD) for Islamic bond funds and Conventional bond funds	51
4.5	Sharpe measure for Islamic bond funds and Conventional bond funds	52
4.6	Beta measure for Islamic bond funds and Conventional bond funds	53
4.7	Treynor measure for Islamic bond funds and Conventional bond funds	54
4.8	Jensen measure for Islamic bond funds and Conventional bond fund	55
4.9	Average statistics from descriptive analysis between Islamic bond funds and Conventional bond fund	56

LIST OF FIGURES

Figure	Description	Page
1.1	Total NAV and Bursa Malaysia Market Capitalization (2009-2013)	3
1.2	NAV by Types of Funds as 31 December in RM million (2009-2013)	4
1.3	Historical Trend of Bond Issuances by Category (RM billion)	8
1.4	PDS outstanding: Islamic and Conventional	12
2.1	Capital Market Line and Security Market Line	23
2.2	Portfolio risk and number of securities	27

CHAPTER 1

INTRODUCTION

1.1 Background of Study

A mutual fund or unit trust fund consists of a pool of funds collected from a group of investors with similar investment objectives. The fund is managed by a full time professional fund manager based on the fund's objective and parameter stipulated as per Fund's Deed and Prospectus. A unit trust fund typically consists of equities and bonds. Some sophisticated fund will consist of derivatives, commodities, properties and financial complex instruments.

To safeguard investors' interest, the trustee will hold all of the investment assets which belong to unit holders or investors. Ownership of the collective investment scheme is depending on the number of units holding. The fund price may increase or decrease in value depending on the underlying beneath of the fund holding. The purchase price at the time of investment will eventually determine the number of units held by each investor.

The return on investment of unit holders is usually derived from income distribution and capital appreciation. Investor can opt for auto dividend reinvestment which might generate more return on investment over a long holding period. The level of income distribution and capital gain at any one time will fairly and equally reflect by the unit trust fund's price or net asset value (NAV).

The contents of
the thesis is for
internal user
only

REFERENCES

- Abdullah, F., Mohamed, S. and Hassan, T (2002). "A Comparative Performance of Malaysian Islamic and Conventional Mutual Funds, *Pertanika*, 8(2), 30-49.
- Annuar, M.N., Shamsheer, M. and Ngu, M.H. (1997). "Selectivity and timing: evidence from the performance of Malaysian unit trusts", *Pertanika Journal of Social Science and Humanities*, Vol. 5, pp. 45-57.
- Bailey, W. and Lim, J. (1992). "Evaluating the diversification benefits of the new country funds", *Journal of Portfolio Management*, Vol. 18, pp. 74-80.
- Blake, C.R., Elton, E.J., Gruber, M.J. (1993). "The Performance of Bond Mutual Funds", *The Journal of Business*, Vol. 66, No. 3, pp. 371-403
- Building the foundation in CMP1, Capital market master plan 2, Securities Commission Malaysia.
- Choong, D. (2005). "Investor's guide to Malaysian Unit Trust (3rd ed). Malaysia: Saga Information Services
- Chua, C.P. (1985). "The Investment Performance of Unit Trusts In Malaysia". *Unpublished MBA Thesis*, School of Management, University Malaya, Kuala Lumpur.
- Cornell, B. & Green, K, (1991). "The investment performance of low-grade bond funds", *Journal of Finance*, vol.46, no. 1, pp 29-48.
- Elton, E.J., Gruber, M.J., Blake, C.R. (1995). "Fundamental Economic Variables, Expected Returns, and Bond Fund Performance", *The Journal of Finance*, Vol. 50, No. 4 (Sep., 1995), pp. 1229-1256
- Fama, E. F., & French, K. R. (2010). Luck versus skill in the cross section of mutual fund returns, *Journal of Finance*, 65(5), 1915-1947.

Fauziah Md. Taib and Mansor Isa (2007). “Malaysian Unit Trust Aggregate Performance”. *Journal of Managerial Finance* Vol. 33 No. 2.

Federation of Investment Managers Malaysia (2013). “Annual Report”, pp 16.

Ibrahim, M., & Wong, A. (2005). “The corporate bond market in Malaysia”. *BIS paper no.26*, February: 114-128.

Ilhyock Shim (2011). “Development of Asia-Pacific corporate bond and securitization markets”. *BIS Papers No. 63*.

Jensen, M. C. (1968). “The performance of mutual funds in the period 1945–1964”. *Journal of Finance*, 48(1), 389–416.

Kahn, Ronald N and Rudd, Andrew (1995). “Does historical performance predict future performance?”, *Financial Analysts Journal*; 51, 6; ABI/INFORM Global

Lauren Swinkels and Pawel Rzezniczak (2009). “Performance evaluation of Polish mutual fund managers” *International Journal of Emerging markets* Vol. 4 No.1

Leong, K.H. and Aw, M.W. (1997). “Measuring unit trust fund performance using different benchmarks”, *Capital Market Review*, Vol. 5, pp. 27-44.

Mahreen Mahmud and Nawazish Mirza (2011). “An Evaluation of Mutual Fund”.

Malaysian Rating Corporation Berhad (2014). “Monthly Bond Market and Rating Snapshot”

Mohamed, S., and Mohd Nasir, A., (1995). ‘The Performance of Unit Trusts in Malaysia: Some Evidence’, *Capital Market Reviews*, Vol.3, No.2, 51-59.

Norafiqah, et al., (2013). "Comparative Study of Conventional and Shariah-based Unit Trust Funds Performance of Public Mutual Berhad", College of Graduate Studies, Universiti Tenaga Nasional, Selangor.

Performance in an emerging economy: "The case of Pakistan" The Lahore Journal of Economics, September: 301-316.

Maslina Ahmad and Razali Haron (2006). "The performance of islamic and conventional unit trust funds in Malaysia", International Islamic University Malaysia, Kuala Lumpur.

Mayo, Herbert B. (2003). "Investments: an Introduction", seventh edition, Thomson-South Western, Ohio, USA.

Monetary and Financial Developments, Economic Reports 2012/2013, Ministry of Finance Malaysia.

Nur Atiqah and Nur Adiana Hiau Abdullah (2009). "The performance of Malaysian unit trusts investing in domestic versus international markets" Asian Academy Of Management Journal of Accounting and Finance, Vol. 5, No. 2, 77-100

Reilly, F.K. and Brown K.C. (2009). "Analysis of investment and management of portfolios (9th ed.). Australia. South Western

Rozali, M.B. and Abdullah, F. (2006). "The performance of Malaysian equity funds", *The Business Review, Cambridge, Summer 2006*; ABI/INFORM Global, pg.

Ross Fowler, Robin Grieves and J. Clay Singleton (2010). "New Zealand unit trust disclosure: asset allocation, style analysis, and return attribution", *Pacific*

Segaf (2009), "The Comparative Analysis of Conventional and Islamic Bond Funds Performance", Universiti Utara Malaysia, Sintok.

Sharpe, W.F., (1966). “Mutual Fund Performance”, *Journal of Business*, 23, 119 – 138.

Soo-Wah Low (2007). “Malaysian unit trust funds performance during up and down market conditions”. *Journal of Managerial Finance* Vol. 33 No. 2.

Stephen A. Ross, Randolph W. Westerfield and Jeffrey Jaffe (2010). *Corporate Finance, McGraw Hill International Edition*, Ninth Edition.

Tan, H.C. (1995). “The investment performance of unit trust funds in Malaysia”, *Capital Market Review*, Vol. 3, pp. 21-50.

Treynor, J.L., (1965). How to Rate Management of Investment Funds, *Harvard Review*, 43(1), 63-75.