



**THE COMPARATIVE ANALYSIS OF  
CONVENTIONAL AND ISLAMIC BOND FUNDS PERFORMANCE**

by

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of Master of Science in Finance at the Graduate School of Management,  
Universiti Utara Malaysia

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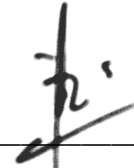
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In the name of Allah azza wa jalla, the most merciful and benevolent  
Peace be upon The Great and Last Prophet Muhammad, his families, his friends and  
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## ABSTRACT

This study is conducted with the aim to compare the performance of Islamic bond funds to the performance conventional bond funds. The performance comparisons are made over several classified period, namely overall period, normal or pre crisis period and crisis period to cater for performance inconsistency of the funds and the influence of economic conditions. Two samples were generated and utilized in this study. The first sample is intends to maximize the number of bond funds included in the study and the length of the study by including the data for all the active bond funds over the period December 2003 to August 2009. In order to overcome biasness due to market condition or market influence, only Jensen Index which is market and risk adjust return is used as performance measure and the basis of comparison for funds in this sample. The number of bond funds included in the sample is 20 Islamic bond funds and 48 conventional bond funds. The second sample is set to allow for a fair comparison between funds that are launched at different years when risk adjusted return, namely Sharpe, Adjusted Sharpe, Jensen and Adjusted Jensen and Treynor Index, are used. The number of bond funds included in the sample is 18 Islamic bond funds and 45 conventional bond funds. In addition of non adjusted and risk adjusted return, the risk and diversification of the funds are also compared.

Using the larger sample and Jensen Index, it is found that the conventional bond fund outperformed Islamic bond funds during the normal or pre crisis period. On average during the overall period of study the two types of bond funds performed equally well. Based on the second sample with complete data for all funds, the study finds that their performances as measured by all the indices for all the clustered periods are similar. The performance of both types of fund also does not change significantly from pre crisis period to crisis period. The risk of conventional bond funds however is found to increase during the crisis in compared to before the crisis. These findings provide evidence that Islamic bonds are more stable than conventional bonds and are less affected by the crisis.

**Keywords:** Conventional bond funds, Islamic bond funds, Performance

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# CHAPTER ONE

## BACKGROUND OF STUDY

### 1.1. Introduction

A bond fund pools money from many investors to buy individual bonds that meet the investment objective. Each bond fund is professionally managed, and is categorized based on the type of bonds in which it invests. Bond funds, similar like any other unit trust funds, provide investors with important features like professional money management, regular income, portfolio diversification, liquidity and convenience.

In term of managing investment, experienced professionals manage a portfolio of securities for investors, and decide which securities to buy and sell based on extensive research. The fund manager usually employs a team of investment analysts and strategists to provide the detailed market information to be considered when choosing investments that best match the funds' objectives.

Most bond funds pay regular income, although the amount may differ with market conditions<sup>1</sup>. This feature can make bond funds an appropriate option for investors who desire somewhat stable, regular income.

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<sup>1</sup> <http://www.deapcapital.com/publications/18-05-2009.pdf>

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