

**THE FINANCIAL PERFORMANCE OF  
ISLAMIC UNIT TRUSTS:  
A MALAYSIAN PERSPECTIVE**

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## **ABSTRACT**

Islamic trust funds is a relatively new capital market instrument and provide investors with an alternative form of portfolio investment that is based on Syariah principles. The financial performance of Islamic unit trusts in Malaysia is analyzed over a period of 36 months commencing February 1999 to January 2002. The measurement yardstick for performance employed are the Sharpe (1966), Treynor (1965) and Jensen (1968) Indices. The investment performance of the Islamic trust funds were evaluated as compared to the market index, Kuala Lumpur Stock Exchange Composite Index (KLCI). The study also aims to identify the nature and characteristics of Islamic unit trusts. In addition the return and risk profile of Islamic trust funds is assessed to gain a better insight of the funds performance. The degree of diversification of Islamic unit trust funds as compared to the market portfolio is also examined. Spearman rank correlation is utilized to analyze fund performance ranking and the persistence of ranking of fund temporal performance. A large majority of the Islamic unit trust funds exhibited superior performance outperforming the market over the period under study. Although the risk profile of Islamic trust funds seems stable over time, they have low degree of diversification. It is also observed that the ranking of temporal performance of Islamic unit trust funds is not persistent over time.

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## **1.0 OVERVIEW**

“Putting all eggs in one basket” is a risky decision. Investors often do not put all their monies into one or two share counters as this is a precarious move. Investors prefer to invest in several stocks or in a portfolio so that they can diversify their risks. Prior researches have indicated that investing in a portfolio not less than eight securities is one way of risk diversification (Chuan, J.E.; Koh S.K. and Koh F.,1985). However, creating a portfolio entails large capital investment that may be a problem for small investors. Unit trusts were created as a solution to this problem. Small investors through investments in unit trusts can achieve more attractive returns and attain risk diversification. Furthermore, the capital invested in unit trust funds are more secured as they are managed by professional fund managers on the investor’s behalf.

Unit trusts have been an increasingly popular investment alternative in Malaysia since its inception in 1959. The advent of the Islamic unit trust in this industry makes it more appealing and provides a wider investment base for small investors. In order to know the real contribution of the Malaysian unit trust industry to the economy and to the investors in particular, assessment on the performance of the unit trust funds had been undertaken by several Malaysian researchers such as Shamseer and Anuar (1995); Tan, H.C. (1995).

As an extension to these prior studies, the current study will be undertaken so as to broaden the scope of investigation into the new Islamic unit trusts and their performance. An evaluation of the performance of Islamic unit trusts is to enable an insight of risks and returns related to these funds and their performance consistency over time.