



اوتنو سبتي تيكولوگي مارا  
UNIVERSITI TEKNOLOGI MARA  
CAWANGAN KELANTAN

**THE COMPARISON PERFORMANCES OF CONVENTIONAL UNIT  
TRUST FUNDS VERSUS ISLAMIC UNIT TRUST FUNDS IN PUBLIC  
MUTUAL:**

**RISK-RETURN TRADE OFF**

**AZIMAH BINTI MAT PILA @ HUSIN**

**2010850262**

**BACHELOR OF BUSINESS ADMINISTRATION (HONS) (FINANCE)**

**FACULTY OF BUSINESS MANAGEMENT**

**UNIVERSITI TEKNOLOGI MARA**

**KOTA BHARU CAMPUS**

**KELANTAN**

**JUNE 2012**

## CHAPTER 1: INTRODUCTION

### 1.0 INTRODUCTION

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. Over the past decade, mutual funds have increasingly become the investor's vehicle of choice for long-term investing. The mutual fund industry or more popularly known as the unit trust industry in Malaysia began in 1959. Over a short history of slightly more than four decades, the period from 1992 to 1996 witnessed the fastest industry growth in terms of the number of unit trust management companies established and the number of unit trust funds launched. The unit trust management companies grew from 13 to 30 while the unit trust funds almost doubled from 40 to 77.

According to Reilly & Brown (2003), a mutual fund is an investment vehicle that pools capital from clients purchasing their shares to invest in a portfolio of securities, with purchasing and selling securities being decided by a fund manager. Mutual funds or unit trust funds, also known as managed investments, allow you to buy a wide range of investments which may not ordinarily be available to you through direct investment such as large commercial properties and corporate bonds. Unit trust funds, is important to investors because investors are motivated to ensure the maximum return on their investments. Therefore information about the efficiency of unit trust funds is one of the major considerations in the fund-selection decision (Berger et al. 1993).

Apart from traditional growth, income and balance funds, there are new investment products being offered such as Islamic funds, capital guaranteed funds, ethical funds, closed-end funds, real estate investment trusts and exchange traded funds. In measuring portfolio performance, it is essential to evaluate the major aspects of portfolio management process including asset allocation, security selection and market timing. Understanding the market timing and selectivity performance of managed funds are vital for investing public in making investment decisions, fund managers in assessing the effectiveness of their strategies and regulators in formulating policy. With emphasis on increase in domestic savings and improvement in deployment of investment through markets, the need and scope for mutual fund operation has increased tremendously.

In Malaysia, there are about 40 private unit trust companies. The number one private unit trust company in Malaysia is Public Mutual which is a leading player in the private unit trust industry commanding more than 40% of the market share. In this context, it becomes pertinent to study the performance of the Islamic Unit Trust Fund and the Conventional Unit Trust Fund in Public Mutual. The relation between risk-return determines the performance of a mutual fund scheme. As risk is commensurate with return, therefore, providing maximum return on the investment made within the acceptable associated risk level helps in demarcating the better performers from the laggards. The 1990s period witnessed the fastest growth of the unit trust industry in terms of the number of new management companies established and funds under management. The centralization of industry regulation, with the establishment of the Securities Commission on 1 March 1993 played key roles in making unit trust household products in Malaysia.

On the other hand, the objective of the study is to evaluate performance of the both Islamic and Conventional mutual funds regardless their type of funds, in relation to its market benchmark. The next section of this paper will discuss on the past research done related to risk and return of mutual fund in Malaysia, followed by the research methodology used to measure the findings.

## 1.1 BACKGROUND OF THE STUDY

The present study focuses on performance of Islamic Unit Trust Fund and Conventional Trust Fund in Public Mutual. Public Mutual is a wholly owned subsidiary of Public Bank. Public Mutual is the largest private unit trust company in Malaysia and currently manages more than 90 funds with a total net asset value (NAV) of RM44.75 billion. As at 30 December 2011, it commands a 44.3% market share in the private unit trust industry. Public Mutual is Malaysia's most dominant private unit trust company in Malaysia.

Public Mutual distributes units of funds through a network of dedicated unit trust consultants who are registered with the FIMM. Investors have the right to view the authorisation card issued by FIMM to the attending unit trust consultant, permitting him to deal in unit trust products. As a wholly-owned subsidiary of Public Bank, it enjoys strong support from the parent company and the established Public Bank Brand. Currently, it remains the "top-of-mind" recall brand for unit trust companies in Malaysia and has the trust and confidence of over 2.6 million account holders in all over country.

Apart from that, it have a strong network of distribution through a group of dedicated and dynamic unit trust consultants, which is the largest and collectively the most productive in the entire private unit trust industry. It also manages all of investors' funds in-house with a team of 20 fund managers and more than 25 research analysts. Besides that, Public Mutual is Malaysia's premier and largest private unit trust company, as well as the most awarded unit trust establishment in the country with 186 awards to date. Out of these, 55 are for Islamic an fund, which makes us the most awarded unit trust fund manager in the Islamic unit trust sector. Recently, there are few notable accolades it received include Eight (8) awards presented at The Edge-Lipper Malaysia Fund Awards 2012 and also The Asset Triple A Islamic Finance Awards 2011; Best Islamic Asset Management House, Retail Category.