



**PERFORMANCE OF ISLAMIC EXCHANGE
TRADED FUNDS IN MALAYSIA: COMPARISON
WITH CONVENTIONAL EXCHANGE TRADED
FUNDS**

**ASPA ZARINA BINTI YOU HUDDIN
2010912415**

**BACHELOR OF BUSINESS ADMINISTRATION
WITH HONOURS (ISLAMIC BANKING)
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
JOHOR**

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ABSTRACT

As one of the most innovative products of financial engineering, Exchange Traded Funds (ETFs) have attracted many investors in Malaysia. By virtue of the nascent nature of MyETF Dow Jones Islamic Market Malaysia Titans 25 (MyETF-DJIM25) and FBM KLCI 30ETF (FBM 30ETF) in Malaysia, comparative performance studies during the year 2008 until 2011. The objective of this research is to look the differences in terms of performance between Islamic and conventional exchange traded funds in Malaysia. The methods were used for evaluating the ETFs performance are risk-adjusted performance for example return using different measures like Sharpe, Treynor and Jensen measures. The study was used detailed monthly prices for the year 2008 to 2011 to compute these measures. MyETF would be informative to conduct further research on the performance of Islamic ETFs, particularly when more Islamic ETFs introduced in the near future. Diaw, Hassan & Ka (2010) found that both ETFs had comparable negative performance with decline in prices and NAV, notwithstanding their success to outperform their respective benchmarks during a financial crisis. The negative returns have caused abnormality in their measurements.



CHAPTER 1

INTRODUCTION

1.0 INTRODUCTION

In the last two decades, Exchange Traded Funds (ETFs) are described as one of the world's most successful financial innovations and fastest growing investments. ETFs are introduced on United States of America (USA) and Canadian Exchanges in the early 1990s. Since then, the number of ETF and their market value has continued to grow. At the end of July 2011, the global ETF industry had 2,847 ETFs with assets of US\$1,444.8 billion. This compares to 461 ETFs with assets of US\$412.1 billion at the end of 2005.

In Europe, four Islamic ETFs are listed on the Exchanges which is two on the LSE and each one on SWX Zurich and the Istanbul Stock Exchange. Although still in the embryonic stage, Islamic ETFs are gaining overwhelming response particularly from Muslim investors. Taking into cognisance the advantages, Shari'ah-compliant ETFs, rather than a Shari'ah-based innovation, seek to provide investment opportunities beyond the existing pool of investment, for Muslim investors and ethical investors, as part of its integration process into the international financial system. In February 2006, Shari'ah-compliant ETFs found their rightful place when the Dow Jones Islamic Market (DJIM) Turkey