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PERFORMANCE OF UNIT TRUSTS IN MALAYSIA: COMPARISON BETWEEN ISLAMIC AND CONVENTIONAL FUNDS DURING FINANCIAL CRISIS

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ABSTRACT

Unit trusts investment is defined as a collective investment scheme for investors, who strive to meet their investment objectives of higher returns with diversified portfolios. Unit trusts in Malaysia plays a significant role in financial development as well as economic growth. The purpose of this study is to examine the performance of conventional and Islamic unit trusts in Malaysia, with consideration of Global Financial Crisis in 2007. Thus, focusing on Malaysian-based unit trusts, which funds perform better? The time frame for this study is from 2004 until 2016. In order to investigate the impact of the economic conditions towards funds' performance, the period was further divided into three subs-periods; pre-crisis (2004-2006), during (2007-2009), and post-crisis (2010-2016), respectively. Furthermore, Adjusted Sharpe, Adjusted Jensen Alpha and Treynor Indices are used to evaluate the performance of unit trust funds. The findings showed both Islamic and conventional funds outperform during economic downturn, as compared to during pre-crisis period. On the other hand, after GFC ended, the results showed that funds were unable to outperform. Overall, funds' performance is comparable to their respective market except for Adjusted Jensen's Alpha Index, whereby, the result showed Islamic funds were underperforming. Moreover, the result also showed Islamic funds have lower beta as compared to conventional funds, thus Islamic funds have lower risk.

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CHAPTER ONE
INTRODUCTION

1.1 INTRODUCTION

This chapter will discuss about the background of the study, particularly on subjects related to unit trusts, objectivity of this study, problem statement, research question, as well as scope and significance of the study.

1.2 OVERVIEW/BACKGROUND OF STUDY

Investment referring to commitment of investor's money for a particular time aimed to generate income or capital appreciation. Common investment can be classified as investment in stocks, bonds, real estate, mutual funds and commodities. Furthermore, Unit trusts investment (or also known as mutual funds) is defined as a collective investment scheme for investors, who strive to meet their investment objectives of higher returns with diversified portfolios. Portfolio in unit trusts consists of variety of asset classes; (i) cash, deposits, and money market instruments, (ii) derivatives, (iii) transferable securities, and (iv) shares in collective investment schemes. In addition, investors generate income or earn return in terms of dividend distribution and capital appreciation.

In Malaysia, unit trusts were first introduced in 1959 – initiated with establishment of Malayan Unit Trusts Limited by British investor (Yahaya *et al*. 2009) and have been continuously develop ever since. The chronology development of unit trusts in Malaysia can be divided into four (4) sub-periods (decades), (i) the formative years (1959-1979), were also known as a slow growth period with only a total of 18 funds and five-unit trusts' management companies were introduced, (ii) period from 1980 to 1990, represented the turning point of unit trusts, whereby the period marked the entry of government participation in and formation of Informal Committee, which consists of representatives from few institutions; Registrar of Companies (ROC), the Public Trustee of Malaysia, Bank Negara Malaysia (BNM), and the Capital Issues Committee (CIC), which regulate the unit trusts. Next, (iii) the growth period (1991-