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Original Articles

# Islamic mutual funds' financial performance and international investment style: evidence from 20 countries

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## Abstra

We purs … und type: Islamic f … we analyse the finar … from 20 coun … lop a (cond … re to different … . Consistent with rec … y superior learning … om these markets … pecially Western … Islamic funds' ir … om predominantly Muslim economies also show a clear small cap preference. These results

are consistent over time and robust to time varying market exposures and capital market restrictions.

Keywords:

fund manager learning

home bias

Islamic finance

Islamic mutual funds

responsible investment

three-level Carhart model

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# Notes

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a lower financial return than ex-post optimized conventional indices. Results of Forte

and Miglietta (2007) highlight the unique characteristics of Islamic investments, as they do not observe FTSE's Islamic index to be significantly co-integrated with its socially responsible or conventional counterpart. Girard and Hassan (2008), however, do not find international FTSE Islamic indices to trail their conventional peers. These three papers are recommended as gateway into this literature.

We follow Bollen (2007) and Renneboog, Ter Horst, and Zhang (2008) by defining equity mutual funds as investing at least 75% in stocks. As Eurekahedge does not provide asset allocation data for Islamic funds, our sample comprises all funds classified by Eurekahedge as equity as well as all of Eurekahedge's balanced funds, whose benchmark consist to at least 75% of an equity index.

It is common practice to analyse portfolios of assets with religious or ethical characteristics based on equal-weighted rather than value-weighted portfolios. This practice ensures a focus on the assets' religious or ethical characteristics and substantially reduces the risk of bias due to idiosyncratic return characteristics of a specific asset (Hong and Kacperczyk 2009; Renneboog, Ter Horst, and Zhang 2008). In the case of Islamic mutual funds, the available data furthermore do not allow for a precise computation of value-weighted portfolios. Eurekahedge, for instance, provides only static fund size data, which are very generously rounded and somewhat incomplete.

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these with our Islamic mutual fund returns. Hence, we manually compute price indices by reducing the return indices by the monthly reinvested dividend yield.

As Style Research does not offer the construction of the size and book to market factor precisely according to Fama and French (1993), we follow the slightly amended procedure of Renneboog, Ter Horst, and Zhang (2008). Renneboog, Ter Horst, and Zhang (2008, 307) found that their 'factors are virtually identical' to the ones of Fama and French (1993).

Matching Islamic equity mutual funds against conventional equity mutual funds as common in the socially responsible investment literature (e.g. Kreander et al. 2005) is not possible for large parts of our sample, as the usual databases cover an insufficient number of conventional mutual funds from many nations in Asia or Africa.

As we do not have sufficient data on any benchmark asset for Liechtenstein, we employ Germany's benchmark assets for it. For Luxembourg, we employ the equity market benchmark and the investment style benchmarks of the Benelux countries due to the same reason.

For instance, in case the global factor and the national factor were perfectly correlated, whereby the absolute returns of the global factor would always be half of the national factor's returns, subtracting the global from the national factor would lead to a
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conclude that the most literal Islamic school of thought, Hanbali, might have a positive effect on Islamic fund performance.

The mean zero value transformation of Cortez, Silva, and Areal (2009) addresses some but not all multicollinearity in our sample. Hence, we also pursue a three-step orthogonalization procedure. First, we orthogonalize the product involving the treasury bill from its terms spread equivalent. Second, we orthogonalize the product including the dividend yield from its cleaned treasury bill and its term spread equivalent. Third, we orthogonalize the product based on the default spread from its cleaned dividend yield, cleaned treasury bill and term spread equivalent. Eventually, we use the product involving the cleaned default spread, the cleaned dividend yield, the cleaned treasury bill and the term spread.

The results of the further robustness tests are available upon request.

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Source: Elsevier BV

Review and analysis of current Shariah-compliant equity screening practices

Source: Emerald

CAPITAL ASSET PRICES: A THEORY OF MARKET EQUILIBRIUM UNDER CONDITIONS OF RISK*

Source: Wiley

On the Timing Ability of Mutual Fund Managers

Source: Elsevier BV

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Constrained investments and opportunity cost – evidence from Islamic funds

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City size and fund performance

Source: Elsevier BV

Comparison with conventional unit trust funds

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The price of sin: The effects of social norms on markets

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Indonesian stock market

Source: John Wiley
Corporate Social Responsibility, Shariah-Compliance, and Earnings Quality
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Is there a role for Islamic bonds in global diversification strategies
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The Valuation of Risk Assets and the Selection of Risky Investments in Stock Portfolios and Capital Budgets
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