

CHAPTER 1

INTRODUCTION

1.1. Background of the Study

Capital market is one of the elements for measuring how good a country with its financial performance, while capital markets are markets for buying and selling equity and debt instruments. There are many instruments in capital market, for example stocks and bonds.

Mutual fund is a part of the capital market, but actually in Indonesia mutual fund is not really have high market. The number of mutual fund investors in 2012 was 150 thousand people, and the total funds is IDR 170 trillion. This number is still very small compared to the total amount of customers of banks, where the banks have managed funds that reached to IDR 2,984 trillion. The number of investors' mutual funds in Indonesia if compared to the total population is considered very small. In the United States, the mutual fund has become a part of family lives, where 8 to 10 families have mutual funds (Alexandri, 2015)

A mutual fund is an actively managed investment company that pools money from individuals and institutions that share a common financial goal. Professional money managers build a portfolio of securities that they believe will help investors achieve their objectives. Portfolios typically consist of stocks, bonds and money market

instruments, or a combination of the three. (According Franklin Templeton Investment 2007)

The benefit that investors can get from investing the mutual fund is, although with a limited capital, investors will still be able to diversify into investment securities so that it can minimize the risk. Through the mutual fund, then the funds will be collected in large numbers to facilitate the diversification of the investment portfolio. Most of investors only have limited knowledge and ability to determine which stock, bond, and another investment instrument which is good to be bought. By doing an investment in mutual funds managed by professional investment managers, this will not be an obstacle if investors want to invest to a capital market (Saputra, 2009)

Mutual funds can be owned with a minimum capital for investor that do not have much amount of money or do not have much time to control their investment. Mutual funds are made to collect money from many investors for investing in securities such stocks, bonds, and money market. Mutual fund companies will manage investors' money with the investment manager.

Like another investment instrument, mutual funds do have a risk like the other instruments. According to Darmadji and Fakhruddin (2011), besides bringing various kinds of profit opportunities, mutual funds also contain various risk opportunity, such as : (1)Risk reduction in the value of units, this risk is influenced by the decline in the price of securities (shares, bonds, and other securities) included in the fund portfolio; (2)Liquidity risk, this risk concerns the difficulties faced by investment managers if

most investors resell (redemption) units held. The investment manager finds difficulties in providing cash for the sale; (3) Risk of default (failure to pay), can arise when the insurance company insured wealth funds could not pay compensation or pay less than the insured amount when unexpected things happen, such as the default of the parties related mutual funds, broker, custodian bank, paying agent, or natural disasters, which may cause the NAV (Net Asset Value) of mutual funds down.

The history of mutual funds in Indonesia according to Wikipedia, everything began in 1976 when PT. Danareksa established by the government. Mutual funds were first published called a Danareksa certificate. Then in 1995, Law number 8 of 1995 about the capital markets was made, some of its contents are about mutual fund regulations. This event was also accompanied by the publication of mutual funds covered by PT. BDNI mutual funds which offer approximately 600 million shares. The amount of funds collected at that time was Rp 300 billion; it is due to one share in the mutual funds equals to Rp 500.

According to the Capital Market Law No. 8 of 1995 Article 1, paragraph (27) “Mutual fund is a place / pool used to collect investors’ funds and then the money will be invested in portfolio by the investment manager.

From the law as mentioned above, there are some components interrelated in mutual funds as follows:

- a. Mutual funds is a place of all investors’ funds collected in one place.

- b. Investors give a permission to the investment manager to control their money.
- c. All the investors' money that are already collected are controlled by the investment manager to invest in some portfolios.

In Indonesia, there are some types of mutual funds which are conventional and sharia mutual funds. Because the majority population of people in indonesia is Islam so that there is a sharia mutual funds for people avoiding interests(*riba*) and other aspects prohibited by Islam such as pornography, prostitution, gambling, and food or drink that are forbidden in Islam. For the company publishing sharia mutual funds should not be labeled as sharia, even it is a conventional company but it must have sharia mutual funds and invest the funds according to Islam law.

This research was written to know the performance of mutual funds, what is the better performance between sharia and conventional. The researcher used 5 methods, which are Jensen, Treynor, Sharpe, M^2 and Miller. Then, the researcher conducted a research with a title “COMPARATIVE ANALYSIS ON THE PERFORMANCE OF CONVENTIONAL AND SHARIA EQUITY MUTUAL FUNDS IN JSX FOR THE PERIOD OF 2014-2015”

1.2.Problem Identification

- a. How is the performance of conventional equity mutual funds using Jensen, Treynor, Sharpe, M^2 and Miller?
- b. How is the performance ofsharia equity mutual funds using Jensen, Treynor, Sharpe, M^2 and Miller?

- c. Is the ranking of the performance between Miller method and the other methods the same?

1.3. Problem Limitation

Problem limitation in this research is focused only in sharia and conventional equity mutual funds'. For the period of 2014-2015 and mutual funds that listed in JSX.

1.4. Research Objectives

- a. To know the performance of conventional equity mutual funds
- b. To know the performance of sharia equity mutual funds
- c. To know the difference between Sharia and Conventional mutual funds in the periods of 2014-2015

1.5. Research Benefits

This research is expected to provide an assessment of the performance of mutual funds which was more robust than the previous research and can be beneficial as a reference for investors and potential investors in making decisions when choosing mutual funds.