



Evaluating Unit Trusts Investment Behaviour: Evidence from Retail Investor in Malaysia

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ABSTRACT

The main objective of this paper is to explore the investment behaviour of investor who is permitted to invest part of their retirement savings in approved unit trusts under the Malaysian Employees Provident Fund (EPF) “Members Investment Scheme” strategic initiative. In addition, this paper also seeks to investigate the perceived importance of unit trust fund selection criteria within the context of retail investor in Malaysia.

A questionnaire-survey was carried out among 440 individual EPF members. The results show that the main reason for investing in the unit trusts was to get more attractive returns. In seeking financial or investment information, recommendations of friends/family were the most widely used. The survey results also show that the ranking of mutual fund selection criteria differs among the retail investors. Past performance was the most important criterion valued by the non-Muslim EPF members. In line with conforming to religious belief, the fund’s commitment to Islamic principles was the most important criterion considered by Muslim EPF members. Both type of religious group members also considered the overall reputation of the fund as important criterion in selecting a mutual fund. The findings of this study can help fund management companies to better promoting their funds to the right investors. In addition, it also provides empirical evidence regarding unit trusts selection criteria from the perspectives of retail investors.

Keywords: Unit trusts, Retail investment behaviour, Religion, Malaysia.

1. Introduction

Mutual fund or more commonly known as unit trust fund in Malaysia is an investment product that allows investors to pool their resources to be invested in a portfolio of assets. This portfolio may comprise asset classes such as cash, shares, bonds and deposits, properties and commodities. Over the past decades, the growth of mutual fund industry in Malaysia has been tremendous. Net asset value (NAV) for mutual funds soared by nearly 160%, i.e. from RM87.4 billion in 2004 to RM226.8 billion in 2010. As at 31st May 2014, the NAV constituted about 20.20% of market capitalisation of Bursa Malaysia (Table 1).

Table-1. Statistics on the Malaysian unit trust industry

	2008	2009	2010	2011	2012	2013	May 14
Number of management companies	39	39	39	40	40	38	37
Total number of launched funds	532	541	564	587	589	595	599
- Conventional	392	397	412	423	420	417	416
- Islamic-Based	140	144	152	164	169	178	183

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Total Units in circulation (billion units)	236.392	273.879	289.366	316.411	351.578	388.519	404.809
- Conventional	187.535	217.031	233.158	255.199	281.713	308.207	320.271
- Islamic-Based	48.857	56.848	56.208	61.212	69.865	80.312	84.538
Net Asset Value (NAV) of funds (RM Billion)	130.436	191.706	226.812	249.459	294.851	335.510	350.708
- Conventional	114.318	169.626	202.768	221.599	259.490	292.688	307.116
- Islamic-Based	16.118	22.080	24.044	27.860	35.361	42.822	43.592
NAV to Bursa Malaysia Market Capitalisation (%)	19.65	19.18	17.79	19.42	20.12	19.71	20.20

Source: Securities Commission (<http://www.sc.com.my/data-statistics/unit-trust-funds-in-malaysia-summary-of-statistics/>)

Inevitably, the significant growth of mutual fund industry has been supported by the government's strong commitment. In its effort to promote an effective investment management industry, the government, through its Capital Market Master Plans has provided several initiatives such as tax exemption on all interest income, the liberalisation of overseas investment rules (such as the increase in overseas investment limit from 10% to 30%) by Bank Negara, the introduction of Employees Provident Fund (EPF) Members Investment Scheme., as well as the recently launched Private Retirement Scheme (PRS) in 2012. Furthermore, to establish Malaysia as an international Islamic capital market hub, the government, has unveiled broad-ranging incentives including facilitative cross-border investment policy (i.e. Islamic funds are permitted to invest 100% of assets abroad), liberalised shareholding structure (Islamic fund management companies are allowed 100% foreign ownership) and greater access to institutional funds (approximately US\$2billion in start-up funding will be channeled by EPF to Islamic fund management companies).

Given the increasing value of investment management industry, in particular the unit trust fund, research into this area is clearly warranted. To date, a number of researchers have focused on the performance of mutual funds (Abdullah, Hassan, & Mohamad, 2007; Hoepner, Rammal, & Rezec, 2011; Md. Saad, Abd. Majid, Kassim, Hamid, & Mohd. Yusof, 2010), however little is known about the behaviour of mutual fund investors. It is not surprising that unit trusts will become one of the most popular investment vehicles among Malaysian households. Therefore, it is important to examine the unit trust investment behaviour and to know which unit trust fund criteria that are most concerned by the individual investors. Specifically, the objectives of the study are as follows:

1. To examine the unit trusts investment behaviour among the retail investors.
2. To examine which criteria are considered important in selecting a mutual fund.
3. To examine whether there are any differences between Muslim and non-Muslim members in the ranking of mutual fund selection.

The remainder of the paper proceeds as follows. The next section discusses the literature review. Section three outlines the research methodology while section four presents the findings. Section five provides a conclusion to the paper.

2. Literature Review

Several studies have shown that past performance of mutual funds can predict future performance (Elton, Gruber, & Blake, 1996; Hendricks, Patel, & Zeckhauser, 1993) and investors use this criterion in their fund selection (Grinblatt & Titman, 1992; Ippolito, 1992; Wilcox, 2003). Although past performance does not guarantee future performance, a survey of 298 affluent investors found performance track record to be one of the four most important criteria for mutual fund selection (Capon, Fitzsimons, & Weingarten, 1994).

Capon et al. (1996) argued that, when investing in mutual funds, investors employ a multi-attribute model rather than a 'naive model' solely based on risk and return. In their exploratory study, the relationships among four sets of variables were examined: information sources used for mutual fund purchases, selection criteria, mutual fund purchase behaviour and demographic data. 3,386 subjects completed the national telephone survey. The study found that U.S. mutual fund investors considered investment performance track record, fund manager reputation and number of funds in the fund family

(e.g., Fidelity, Vanguard) as the most important in selecting a mutual fund. These results support their argument that attributes other than risk and return are also valued by investors.

Gerrans (2004) examined the use of managed fund ratings among individual retail investors in Australia. The ANOVA and hierarchical cluster analysis produced results that are broadly consistent with Capon et al (1996) in that published ratings had the highest score for information sources. Also, the ratings or rankings of the fund product were considered important when it came to selecting a particular fund product; however the reputation of the backing company or fund was considered the most important factor.

It is inevitable that the cost of transaction (known as the expense ratio) in dealing with a mutual fund affects the performance of the fund. Elton, Gruber, Das and Hlavka (1993) showed that there is a strong negative relationship between expense ratios and fund returns. Golec (1996) recommended that investors should avoid funds with large fees. Ippolito (1989) found that funds with a lower transaction cost outperform those with higher fees.

Does the size of fund matter to investors? Ramasamy and Yeung (2003) found that the size of fund was considered among the three most important factors of mutual fund selection; the others being past performance and costs of transaction. Several studies have shown that fund size detracts from performance (Chan, Faff, Gallagher, & Looi, 2009; Chen, Hong, Huang, & Kubik, 2004; Sawicki & Finn, 2002). Indro, Jiang, Hu and Lee (1999) reported that mutual funds must attain a minimum fund size to achieve sufficient returns.

As the fund can be categorised according to its investment objectives, the investment styles of fund manager can be an important factor in fund selection. A number of empirical studies have indicated that investment style does make a difference in investment returns. For example, Volkman and Wohar (1995) found that the goal of a fund does affect persistent fund performance, with high-risk maximum capital gain funds' demonstrating a strong positive persistence in abnormal returns. Golec (1996) reported that a fund's performance, risk and fees are affected by its manager's characteristics. The results from Golec showed that investors can expect better risk-adjusted returns from a fund manager who was relatively young (less than 46 years old) and had long job tenure (more than 7 years). Despite a weak effect, it was shown that fund managers with MBA qualifications outperformed those without. Chevalier and Ellison (1999) found that managers with a higher level of education generating higher risk-adjusted returns. Consistent with findings from Chevalier and Ellison (1999), Masood and Sergi (2009) found that Turkish fund manager performance systematically varied with fund manager characteristics.

Another factor that could become an important consideration to investors is the type of mutual fund. In Malaysia, the funds are mainly divided into government-linked fund and bank-owned funds. Relatively few studies have examined the performance of bank vs. non-bank funds: in the U.S., Bogle and Twardowski (1980) and Bauman and Miller (1995) showed that bank-owned funds underperformed non-bank owned funds. However, Frye (2001) examined the performance of bank proprietary bond mutual funds and found no evidence that bank-managed mutual funds underperformed non-bank funds. Ramasamy and Yeung (2003) found that the type of fund did not matter much to investors when selecting mutual funds.

2.1. Islamic Fund

The International Organisation of Securities Commission (IOSCO) Islamic Finance Report¹ (pg 12-13) stated:

“An Islamic Collective Investment Scheme (CIS) or Islamic Fund must operate in accordance with Shariah principles, not only in its relations with investors but also in its investment and other fund management activities. The effects of this include the following:

- The prohibition against interest (riba) will prevent a fund lending or borrowing at interest, or investing in interest-bearing securities.
- The fund may not invest in unethical or socially detrimental activities such as those involving alcohol, pornography or gambling. It may also not invest in conventional financial institutions, or enterprises which receive or pay substantial amounts in interest.
- Where an investment produces a small proportion of its return from unacceptable sources – for example a trading company which also arranges interest-bearing loans for its customers – that investment may be regarded as acceptable if it is “purified” by giving the unacceptable proportion of the return to charity.

¹ Analysis of The Application of IOSCO's Objectives And Principles of Securities Regulation for Islamic Securities Products, September 2008

- The prohibition against *gharar* (excessive uncertainty/ambiguity) will also limit some types of contract, including for example contracts for differences. On the other hand, this prohibition can encourage a high level of disclosure and precision in contracts with investors.
- Debt obligations are generally not considered to be tradable. However, baskets of investments which contain a proportion of debt obligations may be accepted as tradable, although the precise limit of this proportion remains a topic of debate.
- Unlike most conventional funds, some Islamic CIS may incorporate profit sharing with parties other than investors. The most obvious example is where investments are “purified” by giving part of the return to charity.”

The implication of Islamic Fund is that it provides an avenue for Muslim investors to conform to their religious belief in investing. Abdullah et al. (2007) examined the relative performance of Islamic and conventional funds across different economic conditions in Malaysia. The study indicated that Islamic funds performed better than the conventional funds during bearish economic trends while conventional funds showed better performance than Islamic funds during bullish economic conditions. Md. Saad et al (2010) investigated the efficiency of selected conventional and Islamic unit trust companies in Malaysia during the period 2002 to 2005 using Data Envelopment Analysis (DEA). The study showed that technical efficiency is the main contributor to enhancing the efficiency of the Malaysian unit trust industry. In addition, the larger the size of the unit trust companies, the more inefficient the performance. In comparing the efficiency of unit trust companies, the study found that some of the Islamic unit trust companies perform better than their conventional counterparts. On a large-scale investigation, Hoepner et al. (2011) analysed the financial performance and investment style of 265 Islamic equity funds from 20 countries. Their study found that Islamic funds from the six largest Islamic financial centres (the Gulf Cooperative Council and Malaysia) performed competitively, or even outperformed international equity market benchmarks. In contrast, Islamic fund portfolios from most other nations, with less developed Islamic financial services, underperformed their benchmarks. Overall, these findings seem to suggest that Islamic funds can be used by investors to hedge the downside risk in an adverse economic situation. Thus, to what extent this criterion influences the choice of mutual fund among Muslim investors is investigated in the current study.

3. Methodology

3.1. Hypothesis Development

The aim of this study is explore unit trusts investment behaviour and to elicit members’ perceptions towards unit trust fund selection criteria. Although previous studies posited that past performance was the most important criterion in selecting a fund, the findings might be different to the case of Malaysia, where the members are affiliated to different religious background and this may influence their investment choice decision. On this basis, the following hypotheses were formulated:

1. There is no significant difference in the ranking of mutual fund selection criteria as perceived by Malaysian EPF members.

3.2. Research Method

The main objective of this study is to examine the factors that are considered important in selecting a mutual fund. To accomplish this objective, a questionnaire survey was designed to seek perceptions among the EPF members about Members Investment Scheme and unit trust fund investor behaviour.

3.3. Instruments

This paper reports part of a larger study on retirement savings behaviour in Malaysia. The questionnaire designed for the study contains eight sections. The analyses that follow in the next section focussed on section one and section four of the questionnaire. Section one was designed to gather information about the respondent’s demographic and socio-economic background. Section four focussed on fund selection criteria. In this section, the respondents were asked to indicate, on a five-point Likert-type scale, ranging from “not at all important” to “extremely important”, the factors they perceive when selecting a unit trust fund. Most of these eleven factors have been adapted from previous studies with some additional items to tap issues on religious principles (Bauman & Miller, 1995; Bogle & Twardowski, 1980; Frye, 2001; Gerrans, 2004; Golec, 1996; Masood & Sergi, 2009; Ramasamy & Yeung, 2003; Wilcox, 2003). The alpha coefficients for eleven factors were 0.929; thereby indicating a highly reliable measurement as they were above the acceptable value of 0.7 (Field, 2009, p. 675).

3.4. Sampling and Data Collection

The population of interest in this study was the EPF members. Under the Members Investment Scheme, EPF members are allowed to invest part of their savings in approved external fund (unit trusts). To ensure a representative sample, the respondents were drawn from six organisations spanning trades persons, clerical workers, academics and professionals. Having regard to the confidentiality issues in responding, the six organizations consisted of private universities, a telecommunication company, a company operating in the oil and gas industry, and a company operating in plantation and trading. The main reason for choosing these as the sample was because the respondents were making salary contributions to the EPF; and the respondents were the potential mutual fund investors. It was considered that the nature of respondents' occupations were adequate to capture the diversity of the fund member population, who are working in various types of industries.

Data collection was carried out in early November 2010. The researcher distributed the questionnaires via the assistance of employee representative from six organisations respectively. The representatives then distributed the questionnaires randomly to other employees. At the end of November 2010, the representatives returned all the questionnaires to the researcher. From a total of 1,000 questionnaires distributed, 500 were returned, out of which 440 were usable (valid and completed), thereby yielding a response rate of about 44 percent, a rate considered sufficiently large for statistical reliability. This relatively high response rate was attributed to the self-administered approach undertaken in distributing the questionnaires.

4. Analysis and Findings

4.1. Respondents' Profile

Table II presents the demographic profile of respondents. The sample consisted of slightly more males (52.5%) than females (47.5%). The mean (median) age of respondents was 33.1 (31) with a standard deviation of 8.27 years. Looking at ethnic composition, the majority of respondents were Malays (78.2%). This is not surprising as the Malays form the largest ethnic group in Malaysia. Compared to statistics from the Census of Population and Housing Malaysia 2000, the sample was over-weighted by the Malays (65%) and under-weighted by the Chinese (26%). In terms of religion affiliation, the largest proportion of the respondents was affiliated to Islam (78.6%). This was followed by Buddhism (12.7%) and Hinduism (7.3%). Another 1.1% respondents indicated that they were affiliated with Christianity.

The majority of respondents are well educated with more than 22 percent holding a diploma and 53.2% having completed a University degree. More than two-third of total respondents have been members with the EPF for 10 years or less (69.3%). The sample median monthly income was between RM4,001 and RM5,000. The majority of respondents (45.2%) earned RM4,000 or less. More than 10% of total respondents earned RM10,001 and above. This result indicates that most of the respondents can be classified as middle-class income earners since the majority have monthly incomes within the range of RM1000 to RM5000 (Eighth Malaysian Plan 2001-2005). With regard to total EPF savings, majority of respondents accumulate less than or equal to RM20,000.

Table-2. Respondents' Profile

Valid Percent (%)		Valid Percent (%)			
Gender	Male	52.5	EPF Membership	Less than 5 years	33.4
	Female	47.5		5-10 years	35.9
Age	30 and 47.3			11-20 years	23.4
	below			More than 20 years	7.3
	31-35	22.3	Monthly Income	Less than or equal to RM4,000	45.2
	36-40	15.9		Between RM4,001 and RM5,000	18.4
41-45	6.6	Between RM5,001 and RM6,000		8.2	
46-50	4.1	Between RM6,001 and RM7,000		5.9	
Ethnicity	51 and 3.8			Between RM7,001 and RM8,000	3.6
	above			Between RM8,001 and RM9,000	4.8
	Malay	78.2		Between RM9,001 and RM10,000	3.0
	Chinese	13.4			

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	Indian	7.7		RM10,001 and above	10.9
	Other	0.7			
			Highest	Secondary	12.3
Religious	Islam	78.7	Education	Diploma	22.3
Affiliation	Buddhism	12.7		First degree	53.2
	Hinduism	7.3		Masters	10.7
	Christianity	1.1		PhD	0.7
	None	0.2		Other	0.8
Total EPF Savings	Less than or equal to RM20,000	36.4			
	Between RM20,001 and RM40,000	22.0			
	Between RM40,001 and RM60,000	10.7			
	Between RM60,001 and RM80,000	7.3			
	Between RM80,001 and RM100,000	7.5			
	Between RM100,001 and RM120,000	5.5			
	Between RM120,001 and RM140,000	2.3			
	RM140,000 and above	8.3			
<i>N= 440</i>					

4.2. Members Investment Scheme (MIS)

The first two (Questions 7 and Question 8) questions of Section of the survey sought to examine members' awareness of the scheme, and how they become aware of the scheme. As shown in Table III, out of 440 responses obtained through the survey, 256 (58.2%) respondents were aware of the existence of the MIS. The majority (52%) of them became aware of the MIS through unit trust consultants. The latter suggests the importance of the marketing role played by the unit trust consultants.

Table-3. Crosstabulation of MIS awareness * Source of awareness Count

		Question B8				Total
		Through EPF	Through UTC	Through family/friends	Other	
Q. B7	Yes	55	133	58	10	256

Notes to Table 5.6: Question 7 asked respondents "Were you previously aware of the Members Investment Scheme?" Question 8 asked respondents "How did you first become aware of this scheme? Please tick only one option."

Respondents that had invested in the unit trusts under the MIS were then presented with a list of possible reasons for doing so. The perceived importance of these reasons, ranked in descending order, is shown in Table 4.

Clearly, attractive returns had been highlighted as the main reason for withdrawal under MIS. Its mean score of 4.63 is close to 5 (i.e. the "Extremely important" category). The next most important reason for withdrawal under the MIS was "to have better control over the type of investment vehicles I want to put my money in". This result implies that some EPF members prefer to have certain autonomy in the management of their retirement savings.

In addition, with a mean score of 3.99, which is close to 4 (i.e. the "Important" category) it is reasonable to suggest that religion influences the investment decision of members. However, this effect will be analysed further using inferential statistics. Nearly 60% of those who had invested under the MIS were satisfied with the performance of their main unit trust funds over the last three years, while 16.9% and 6.5% were very satisfied and dissatisfied respectively.

Table-4. Perceived importance of investing in the unit trusts under the MIS

Possible reasons	Mean score	SD
To get more attractive returns	4.63	0.55
To have better control over the type of investment vehicles I want to put my money in	4.10	0.74
To invest according to religious principle/guidance	3.99	0.69
To change the level of risk	3.94	0.87

In general, respondents were asked their opinions with regard to investing in unit trusts. A mean score analysis, ranked in descending order, is shown in Table V. Clearly, majority of the respondents (49.1%) agreed that they want to earn higher rate of return by investing in an external unit trusts. More than 40 percent of respondents also agreed that investing in unit trusts will provide them asset diversification. In addition, the majority of respondents agreed that the cost of investing in unit trusts is high and they might lose some of their retirement savings if investing in unit trusts. It is interesting to note that a slight majority of respondents did not want to take the extra risk of investing in unit trusts (38.4%), did not have enough confidence to choose an external unit trust (36.4%), and had little interest in financial matters (30.5%).

Table-5. Responses to Investing in Unit Trusts (N=440)

	Mean score	SD	Strongly Disagree	Disagree	Neither Disagree nor Agree	Agree	Strongly Agree
I want to earn a higher rate of return by investing in an external unit trust	3.71	0.83	4 (0.9%)	27 (6.1%)	128 (29.1%)	216 (49.1%)	65 (14.8%)
Investing in an external unit trust will provide asset diversification	3.64	0.79	4 (0.9%)	16 (3.6%)	172 (39.1%)	189 (43.0%)	59 (13.4%)
The cost of investing in external unit trusts is high	3.41	0.85	4 (0.9%)	58 (13.2%)	167 (38.0%)	177 (40.2%)	34 (7.7%)
I might lose some savings if I invest in an external unit trust	3.32	0.83	7 (1.5%)	68 (15.5%)	157 (35.7%)	193 (43.9%)	15 (3.4%)
I do not want to take the extra risk of investing in an external unit trust	3.26	0.89	10 (2.3%)	78 (17.7%)	161 (36.6%)	169 (38.4%)	22 (5.0%)
I do not have enough confidence to choose an external unit trust	3.06	1.04	39 (8.9%)	92 (20.9%)	131 (29.8%)	160 (36.4%)	18 (4.0%)
I have little interest in financial matters	2.85	1.07	55 (12.5%)	115 (26.1%)	124 (28.2%)	134 (30.5%)	12 (2.7%)

4.3. Unit Trust Fund Selection Criteria

The responses obtained were analysed using SPSS version 18.0 (now known as PASW Statistics 18). To determine which of the fund selection criteria are perceived as more or less important, the mean analysis was performed to rank all of the 11 factors. As depicted in Table VI, the “fund’s commitment to Islamic principles” was perceived as the most important factor in selecting a unit trust fund. This could be due to the fact that the majority (78.6%) of respondents in this study are Muslim. With only a slight mean difference, “past performance of fund” was the second factor considered important. This evidence is in line with the findings of Capon et.al (1996) that investors also valued other criteria than solely past performance. It is interesting to note that the type of fund (Government-linked or Bank-owned) and the size of fund are the least important factors considered in fund selection. This is in consistent with the

results from Ramasamy and Yeung (2003) that the type of fund did not matter much in selecting a mutual fund.

Table-6. Ranking of fund selection criteria

Fund criteria	Mean	SD	Rank
The fund's commitment to Islamic principles	4.2295	.77521	1
Past performance of fund	4.2159	.70548	2
Overall reputation of the fund	4.1318	.68561	3
Experience of fund manager	4.1068	.67830	4
Fund ratings	4.1000	.68435	5
Investment style of fund manager	4.0023	.68001	6
Qualification of fund manager	3.9955	.72065	7
Cost of transaction	3.9795	.72510	8
Government-linked fund	3.9568	.71779	9
Size of fund	3.9568	.68532	10
Bank-owned fund	3.8295	.72416	11

In order to examine whether there are differences in the ranking of fund selection criteria between Muslims and non-Muslims, independent- sample t-tests were performed. Table VII shows the ranking of fund selection criteria among Muslims and non-Muslims. "Past performance" was considered the most important criteria by non-Muslims. In contrast to what Muslim members perceived as the most important criterion, the "fund's commitment to Islamic principles" was considered among the least important criteria by non-Muslims. Thus, both groups of respondents found the "overall reputation of the fund" to be quite an important factor in selecting a unit trust fund. Again, the size and type of fund were the least important factors considered by both groups. Overall, the above results indicated that Muslims and non-Muslims differ significantly in their perceived importance of unit trust fund selection criteria. Thus, the null hypothesis can be rejected. The t-test highlighted that seven out of eleven factors had significant differences.

Table-7. Importance of fund selection criteria between Muslims and non-Muslims

Fund Criteria	Muslim (n = 346)		Non-Muslim (n = 93)		t
	Mean	Rank	Mean	Rank	
The fund's commitment to Islamic principles	4.295	1	4.011	8	2.966*
Past performance of fund	4.101	2	4.645	1	-6.941*
Overall reputation of the fund	4.101	2	4.258	2	-1.970*
Experience of fund manager	4.093	3	4.172	5	-1.006
Fund ratings	4.058	4	4.258	2	-2.518*
Investment style of fund manager	3.974	5	4.108	6	-1.683
Qualification of fund manager	3.951	6	4.183	4	-2.798*
Cost of transaction	3.913	9	4.215	3	-3.616*
Government-linked fund	3.948	7	4.011	8	-0.869
Size of fund	3.928	8	4.075	7	-1.850
Bank-owned fund	3.798	10	3.968	9	-2.258*

* Significance at the $p < .05$ level.

5. CONCLUSION

The importance of this study can be viewed from two aspects: theoretical contributions and practical implications. Theoretically, this study adds new evidence to existing behavioural research on unit trust funds.

This study explored the mutual fund selection criteria from the perspectives of clients, whereas Ramasamy and Yeung (2003) examined mutual fund selection criteria from the financial advisors' point of view. This study supports the evidence from Ramasamy and Yeung (2003) that past performance was

considered amongst the most important criteria in fund selection. Thus, the study further indicated that there are significant differences in the ranking of fund selection criteria between Muslim and non-Muslim EPF members. Muslim members perceived the “fund’s commitment to Islamic principles” as the most important criterion in selecting a mutual fund.

However, this criterion was considered among the least important by non-Muslims. Practically, the findings of this study can help fund management companies to better promote their funds to the right investors. For example, findings show that past performance was still considered the main criterion in selecting a fund among non-Muslim investors. Fund management companies that offer an Islamic fund with attractive past returns, may also reach this group of investors as well as prospective Muslim investors.

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