

**MALAYSIAN ISLAMIC UNIT TRUST RATING:
PERCEPTIONS OF UNIT TRUST MANAGERS**

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PERPUSTAKAAN
UNIVERSITI MALAYSIA SABAH

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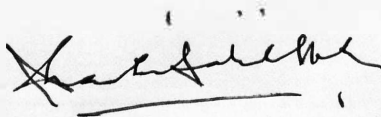
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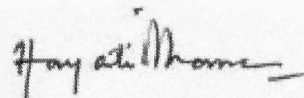
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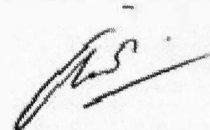
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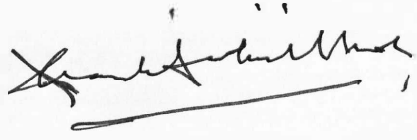
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DECLARATION

I hereby declare that the material in this thesis is my own except for quotations, excerpts, equations, summaries and references, which have been duly acknowledged.



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ABSTRACT

The current research explored the current progress of the perceived Islamic Unit Trust (IUT) rating development within unit trust managers of unit trust management companies operating in Malaysia. It was motivated by the scarcity of empirical attention given to the subject on its perceived elements of performance information. The current research sought to substantiate its propositions through two research objectives. First, was to investigate the perceived level of importance of unit trust managers' on IUT Rating elements. Second objective was to identify the relationship between perceived importance of information characteristics for fund rating system (i.e. aspects of ratings) and perceived IUT Rating elements from the perspectives of unit trust managers. The interest on the perceived importance of information characteristics for fund rating system (i.e. aspects of ratings) was posited as the predictor and perceived IUT rating elements as the outcomes. A variety of elements were taken into account in the analysis including risk-adjusted return, fund size, fund age, fund fees, transaction costs, management structure, management tenure, managerial incentives, selection and market timing, level of diversification, investment style and Islamic values disclosure. A combination of mail and in-person survey was used to collect the data. 108 usable questionnaires were returned out of 340 questionnaires were sent yielding a 29.47 percent response rate. The results of the data revealed that risk-adjusted return, transaction costs, managerial incentives and Islamic values disclosure perceived to be important elements of perceived IUT Rating. The unit trust managers' emphasis on perceived importance of the aspects of ratings was significantly influenced by positive result on their perception towards perceived IUT Rating elements. Furthermore, the current research found that Islamic values disclosure, risk-adjusted return and managerial incentives are highly regarded to be the most important elements while transaction costs are regarded to be less important element of the perceived IUT Rating. The result infers that the level of importance among the perceived IUT Rating elements are statistically significant, thus the alternative hypothesis could be accepted. Indeed, sufficient knowledge in Shari'ah based-IUT among unit trust managers eventually may have influenced and led their perception into choosing Islamic values disclosure to be the most important element among the perceived elements of IUT Rating while the risk-adjusted return, transaction costs and managerial incentives elements are perceived to be important due to their compatibility with the Shari'ah principle of profit and loss sharing concept. Consequently, these findings may capture the true reflections of elements of IUT Rating performance information that unit trust managers themselves respect and believe in.

ABSTRAK

PENARAFAN UNIT AMANAH ISLAM MALAYSIA: PERSEPSI PENGURUS-PENGURUS UNIT AMANAH

Kajian ini menerokai perkembangan semasa dalam pembangunan Penarafan Unit Amanah Islam (UAI) dikalangan pengurus-pengurus unit amanah bagi syarikat-syarikat pengurusan unit amanah yang beroperasi di Malaysia. Ianya telah dimotivasikan oleh kurangnya perhatian empirikal diberikan kepada subjek tersebut mengenai unsur-unsur maklumat prestasi Penarafannya yang mahu dilihat. Kajian semasa cuba untuk membuktikan cadangannya melalui dua objektif kajian. Pertama, untuk menyiasat tahap kepentingan pengurus-pengurus unit amanah terhadap unsur-unsur Penarafan UAI yang mahu dilihat. Objektif kedua adalah untuk mengenalpasti perhubungan antara kepentingan ciri-ciri maklumat untuk sistem penarafan dana (iaitu aspek penarafan) yang mahu dilihat dengan unsur-unsur Penarafan UAI yang mahu dilihat dari perspektif pengurus-pengurus unit amanah. Kecenderungan terhadap kepentingan ciri-ciri maklumat untuk sistem penarafan dana (iaitu aspek penarafan) yang mahu dilihat dikemukakan sebagai peramal dan unsur-unsur Penarafan UAI yang mahu dilihat adalah merupakan hasil. Pelbagai unsur-unsur diambil kira dalam analisa termasuklah pulangan yang dilaraskan dengan risiko, saiz dana, umur dana, yuran dana, kos urusan, struktur pengurusan, tempoh pengurusan, insentif pengurusan, pilihan dan penjadualan pasaran, tahap kepelbagaian, gaya pelaburan dan pendedahan nilai-nilai Islam. Gabungan survei mengirim dan hadir sendiri telah digunakan untuk mengumpul data. 108 soal selidik boleguna dikembalikan daripada 340 soalselidik yang dihantar menghasilkan 29.47 peratus kadar respon. Keputusan data mendedahkan bahawa pulangan yang dilaraskan dengan risiko, kos urusan, insentif pengurusan, dan pendedahan nilai-nilai Islam dilihat sebagai unsur-unsur penting dalam Penarafan UAI yang mahu dilihat. Penekanan pengurus-pengurus unit amanah ke atas kepentingan aspek penarafan yang mahu dilihat telah mempengaruhi keputusan positif mereka secara signifikan keatas persepsi mereka terhadap unsur-unsur Penarafan UAI yang mahu dilihat. Seterusnya, kajian semasa telah mendapati pendedahan nilai-nilai Islam, pulangan yang dilaraskan dengan risiko dan insentif pengurusan dianggap sebagai unsur yang amat penting manakala kos urusan dianggap sebagai unsur yang kurang penting bagi unsur-unsur Penarafan UAI yang mahu dilihat. Keputusan menyimpulkan bahawa tahap kepentingan antara unsur-unsur Penarafan UAI yang mahu dilihat adalah signifikan secara statistik yang menjurus kepada penerimaan hipotesis alternatif. Sesungguhnya, pengetahuan UAI yang cukup berasaskan Shari'ah dikalangan pengurus-pengurus unit amanah akhirnya telah mempengaruhi dan mengarah persepsi mereka memilih pendedahan nilai-nilai Islam sebagai unsur yang paling penting di antara unsur-unsur Penarafan UAI yang mahu dilihat disamping kepentingan unsur-unsur pulangan yang dilaraskan dengan risiko, insentif pengurusan dan kos urusan yang dianggap sesuai dengan prinsip untung dan rugi berlandaskan Shari'ah. Akhirnya, penemuan ini mungkin cerminan sebenar perumusan unsur-unsur maklumat prestasi Penarafan UAI yang dipercayai dan dihormati oleh pengurus-pengurus unit amanah.

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LIST OF ABBREVIATIONS

BNM	- Bank Negara Malaysia
BURSA	- Bursa Malaysia Securities Berhad
FIMM	- Federation of Investment Managers Malaysia
FMUTM	- Federation of Unit Trust Managers Malaysia
IFSB	- Islamic Financial Services Board
IIRA	- Islamic International Rating Agency
IUT	- Islamic Unit Trust
NAV	- Net Asset Value
SACSC	- Shari'ah Advisory Council of the Securities Commission Malaysia
SCM	- Securities Commission Malaysia
UTC	- Unit Trust Consultant
UTMC	- Unit Trust Management Companies



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CHAPTER 1

INTRODUCTION

1.0 Introduction

This chapter presents the general essence of the current research endeavor. It highlights the underlying problem and main thesis of the research. The research questions and research objectives are also set forth. The expected contribution both to the theory and practice are highlighted. Finally, the scope of the study, the operational definition of key terms and variables used in the current research and organization of the thesis are provided at the end of this chapter.

1.1 Background of the research

Unit trust fund rating system has long been recognized as one of the most reliable sources of information on funds' performance for all the players in the investment management field (Amenc and Le Sourd, 2005; Bechmann and Rangvid, 2007). It provides information that is used for all the investment players' various purposes which spans from funds' decision making to a mean for investors reference in avoiding worst performing funds (Bechmann and Rangvid, 2007). Moreover, it has been portrayed as an important key success factor in orienting the subscription flow (Amenc and Le Sourd, 2005; 2007). Its ability to evaluate and compare funds quickly on the basis of risk and return factor, making it possible to check whether the performance of the fund is up to the level of risk taken has been well recognized and highly influential among investors (Del Guercio and Tkac, 2001; Amenc and Le Sourd, 2005). Its importance is further reiterated when investors were found to be using their fund ratings information extensively in their efforts toward successfully selecting a superior high performance fund through creating their individual purchase decision criterion (Amenc and Le Sourd, 2007; Morey and Gottesman, 2006; Russel and Malhotra, 2006; Adkisson and Fraser, 2003).

As a result, it is quite apparent recently that fund rating information has been portrayed as an important mean of achieving fund's overall performance, and to a certain extent fund rating information is claimed as 'symmetrically investor response to positive and negative information on fund quality' (Del Guercio and Tkac, 2001). In addition, fund rating information portrays as crucial to unit trust management companies to be able to underline the quality of the funds they offer which in turn allowing them to create competitive sales argument (Amenc and Le Sourd, 2005; 2007). Thus, in response to investors' demand for some simple strategies to screen the numerous funds, several independent agencies have started offering ratings on the unit trust funds. In the United States, quantitative ratings have been used since the middle of the 1980s with the creation of the Morningstar, Standard and Poor's and Lipper's rating which thereafter refers to as the traditional fund rating system.

The traditional fund rating system which is published in an extensive way on its websites, considered reward funds by using a star system which attributes from one to five stars. It emphasized on financial ratings to evaluate and compare the respective qualities of funds with regards to their historical risk and return characteristics. This claim has been in support by previous studies which suggested the risk-adjusted return as an important element of fund rating information (Russel and Malhotra, 2006; Amenc and Le Sourd, 2005; Howe and Pope, 1996; Morey, 2002 and Bechmann and Rangvid, 2007). For example, Howe and Pope (1996) and Morey (2002) stated that rating is based on raw unit trust returns which contain risk-adjusted return element. Russel and Malhotra (2006) have affirmed that the fund rating is thus a composite measure of risk-adjusted performance based on historical data. Del Guercio and Tkac (2001) asserted that fund rating information embodied over and above its correlation with other performance measure. Bechmann and Rangvid (2007) found that fund rating contains information about the future long-run performance of the funds whereas Amenc and Le Sourd (2005) found that risk-adjusted performance measure is the core of fund rating.

It seems that the traditional fund rating system contains useful information about historical performance measured in terms of the risk-adjusted return of unit