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Performance Analysis of Islamic Equity Mutual Funds and Conventional Equity Mutual Funds During 2019-2023 Period

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ABSTRACT

This study aims to analyze and compare the performance of Islamic equity mutual funds and conventional equity mutual funds in Indonesia during the 2019–2023 period, particularly throughout the pandemic and post-pandemic phases. The method employed is descriptive quantitative with a comparative approach involving 18 Islamic and 56 conventional mutual funds registered in Bareksa. Performance is assessed using three risk-adjusted return metrics: Sharpe Ratio, Treynor Ratio, and Jensen's Alpha, based on monthly NAV data and benchmarked against JCI and ISSI. The findings reveal that, on average, both fund types showed negative performance under Sharpe and Treynor, while Islamic funds outperformed in Jensen's Alpha, indicating superior excess returns beyond systematic risk expectations. T-test results indicate no significant differences between the two fund types across all three performance indicators. These findings imply that Islamic equity mutual funds can be a viable investment alternative, especially for investors seeking Sharia-compliant options.

Keywords: *Sharpe, Treynor, Jensen, Investment Performance, Sharia Compliance.*

ABSTRAK

Penelitian ini bertujuan untuk menganalisis dan membandingkan kinerja reksa dana saham syariah dan reksa dana saham konvensional di Indonesia selama periode 2019–2023, khususnya selama fase pandemi dan pasca pandemi. Metode yang digunakan adalah deskriptif kuantitatif dengan pendekatan komparatif yang melibatkan 18 reksa dana syariah dan 56 reksa dana konvensional yang terdaftar di Bareksa. Kinerja dinilai menggunakan tiga metrik pengembalian yang disesuaikan dengan risiko: Sharpe Ratio, Treynor Ratio, dan Jensen's Alpha, berdasarkan data NAB bulanan dan diukur terhadap IHSG dan ISSI. Temuan ini mengungkapkan bahwa, rata-rata, kedua jenis dana menunjukkan kinerja negatif di bawah Sharpe dan Treynor, sementara dana Islami mengungguli Jensen's Alpha, menunjukkan pengembalian berlebih yang unggul di luar ekspektasi risiko sistematis. Hasil uji-T menunjukkan tidak ada perbedaan yang signifikan antara kedua jenis dana di ketiga indikator kinerja. Temuan ini menyiratkan bahwa reksa dana ekuitas Islam dapat menjadi alternatif investasi yang layak, terutama bagi investor yang mencari opsi yang sesuai dengan Syariah.

Kata kunci: Sharpe, Treynor, Jensen, Kinerja Investasi, Kepatuhan Syariah.

INTRODUCTION

In a volatile global economic landscape, effective financial planning and prudent wealth management become a crucial part of individuals seeking both financial stability in the present and future prosperity. The principles of Islamic finance offer a unique ethical approach to wealth management, emphasizing fairness,

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transparency, and Sharia compliance by investing in halal assets that also provide social benefits (Hayat & Kraeussl, 2011). A key strategy for utilizing wealth is by investment. This approach integrates personal investment management, financial advisory services, and strict adherence to Islamic principles (Ariff & Mohamad, 2017).

Along with the growing awareness of finance stability during economic downturn in 2020, Sharia investment products such as Islamic mutual funds are increasingly in demand as an investment alternative that complies with Islamic principles. As the country with the largest Muslim population in the world, the Islamic investment industry in Indonesia has experienced significant growth in recent years. These progression can indicate that Muslim and non-Muslim investors are starting to view these product as an ethical and potentially profitable options (Duasa et al., 2020). Despite a projected annual growth of 15% in Muslim investments (Hassan, 2002), the actual participation in Islamic financial products among Muslims remains relatively low, so it seems that there is still room to exploit this industry.

According to Pranyoto & Susanti (2018), mutual funds are a tool for raising funds which will then be invested by investment managers to build diversified portfolios. In this case, both Islamic and conventional mutual funds serve as viable funding instruments for investors with limited capital and time (Efrinal, 2020). By aligning with Islamic perspectives on wealth management, as encouraged in The Hadith of Tirmidhi: 2465, mutual funds can support to fulfil both religious obligations while ensuring long-term financial stability. Islamic mutual funds differ fundamentally from their conventional counterparts, particularly in asset selection and operational principles governed by a Sharia Supervisory Board, ensuring compliance with Islamic law. The screening and cleansing process appeals to investors who prioritizing religious values, while those focused on returns often compare performance metrics across both fund types before making an investment decision (Syafrida et al., 2014).

A prudent investor must conduct a thorough analysis to make well-informed investment decisions. The primary goal is to select mutual funds that offer optimal returns while minimizing potential risks. The reward for an investor's willingness to bear investment risk is known as return, which serves as a key indicator in the investment process. There are two primary approaches to evaluating mutual fund performance. By assessing the fund's returns by capital gain/loss and calculating risk-adjusted returns. Where is, capital gain in mutual funds is the profit obtained by investors from the increase in the price of mutual fund units compared to the price when it was purchased. In other words, capital gains occur when investors resell mutual fund units with a Net Asset Value (NAV) that is higher than the NAV at the time of purchase.

While capital gains reflect the profit gained from the difference selling and buying price of an asset (NAV) and are one of the sources of profit in a mutual fund, however relying on this figure alone does not provide a complete overview of a fund's performance. Investors need to consider other factors such as risk. When comparing

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mutual fund performance, risk-related information plays a crucial role. According to Pratomo & Nugraha (2009), considering risk factors in performance evaluation provides investors with valuable insights into the effectiveness of fund managers. Additionally, it enables investors to assess the level of risk undertaken to achieve a given performance outcome.

The period between 2020 and 2021 provided a distinct opportunity to evaluate Islamic mutual fund performance in the global economic downturn triggered by the COVID-19 pandemic (Sebo & Nafi, 2021). As the global economy faced unprecedented challenges, leading to significant volatility in traditional investment vehicles, such as conventional mutual funds. A research by Mumtazah & Permadhy (2022) found that the average performance of conventional equity funds during critical period of March 2020 to July 2021 lagged behind the overall market performance of the Jakarta Composite Index (IHSG). This period of underperformance underscores the potential resilience of Sharia-compliant investments in navigating periods of economic uncertainty.

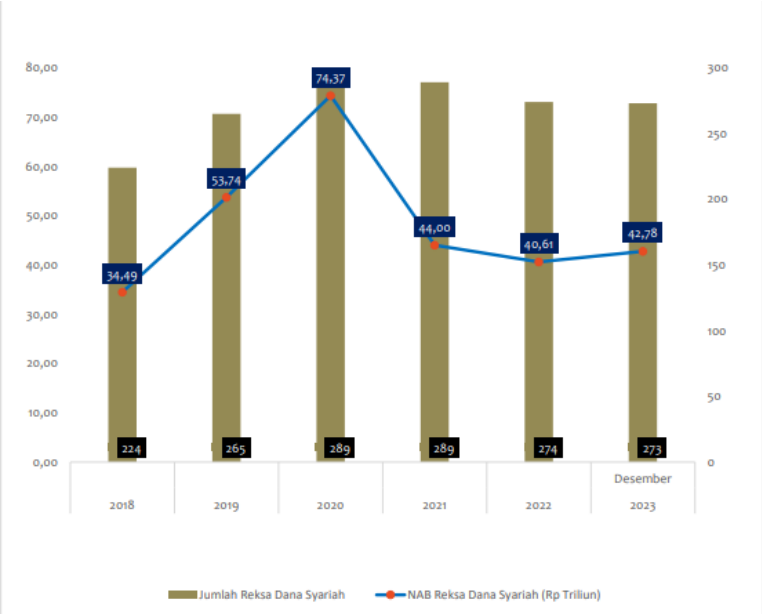

Figure 1. Islamic Mutual Funds Growth (2018-2023)
Source: OJK – Accessed on December 2024.

The growth of Islamic mutual funds in Indonesia that can be seen from *Figure 1* provides empirical evidence of this trend. Data sourced from the Financial Services Authority (OJK, 2024) reveals that the Net Asset Value (NAV) of Islamic Mutual Funds in Indonesia by December 2019 reached 53.74 trillion Rupiah, managed by 265 Islamic mutual fund companies. This represents a substantial growth compared to the previous year's figure of 34.49 trillion Rupiah in 2018. The industry continued its upward trajectory in 2020, experiencing a notable surge in NAV to 74.37 trillion Rupiah. However, the period from 2021 to 2022 witnessed a slight dip in performance with the NAV dropping from 44.00 to 40.61, which could be attributed to various

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factors such as economic conditions, market volatility, or changes in investor sentiment during Covid-19. Despite this temporary setback, the NAV rebounding significantly reaching 42.78 in 2023, demonstrating resilience and continued growth potential.

Observing the positive trend in Islamic mutual funds from the data above, a more comprehensive analysis is required to enable investors to capitalize on this phenomenon effectively. By utilizing risk-adjusted return metrics, along with models such as the Sharpe, Jensen, and Treynor alpha ratios, investors can gain a deeper understanding of portfolio efficiency, which measures returns relative to the risks taken. These calculations are also instrumental in assessing the resilience of Islamic mutual funds during periods of high volatility, comparing fund performance more accurately, and focusing on long-term performance rather than short-term fluctuations. Therefore, further assessment and analysis are essential to evaluate a mutual fund before investing in such instruments. These models primarily rely on historical returns to forecast future returns and risks (Qur'anitasari et al., 2019). All three methods have their own characteristics, where the Sharpe method emphasizes total risk (standard deviation), Treynor considers market fluctuations to play a major role in influencing returns (beta), while Jensen himself emphasizes alpha (Rebiman & Putera, 2022).

Several studies have been conducted before to assess the performance between Islamic and conventional mutual funds. For instance, findings from Adhi et al., (2021) found that the return between each mutual fund has a significant difference, whereas the return of conventional mutual funds is greater than Islamic mutual funds. This finding is contradict with the assumption by Nursanita & Pratiwi (2023), where the study observed positive assessments of both types, indicating that the Islamic mutual funds can excel the conventional in crisis and non-crisis periods. By that study it is proven that the Islamic mutual funds can outperform the conventional mutual funds in crisis and non-crisis periods.

However, those researches are limited to particular conditions on Islamic mutual funds and conventional mutual funds in some countries and different time periods. The differences in each research can cause confusion and could potentially affect decision-making. Therefore, it is important to conduct a further analysis of the performance of Islamic and conventional equity mutual funds to provide comprehensive information to investors before they decide to invest. The research was conducted during 2019-2023 when it coincided with the Covid-19 pandemic to see the performance of each mutual fund during the critical period and how it recovered during period afterwards. Based on the background described above, an analysis will be carried out with the title: **"Performance Analysis of Islamic Equity Mutual Funds and Conventional Equity Mutual Funds During 2019-2023 Period."**

Through this research, it is hoped that the results obtained will be used as a consideration by investors who are planning to switch to Islamic investment in

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making the most relevant decisions, considering that this research presents data from the latest period. This paper contributes to the research on Islamic capital, in particular as an insight and suggestion for investment managers to improve the performances of Islamic mutual funds in order to compete in the capital market.

Research Structure

The rest of the paper is structured as follows: Section 2 highlights the evolution and existing literature available in this field. Section 3 represents the research problem and objectives of the study; Section 4 presents the research methodology. Section 5 is devoted to results and discussion, while section 6 includes the study's findings and conclusion.

METHODOLOGY

Research Framework

This research framework provides a concise overview to enhance comprehension about the topic. The primary objective of this study is to determine the better performance of mutual funds during the pandemic and post-pandemic periods. The research conducted by calculating returns using Net Asset Value (NAV) data and comparing these returns to a benchmark. The analysis aims to ascertain whether the NAV values of the selected mutual funds exceed or fall below the performance of the benchmark index. A visual representation of this research framework is presented in the figure below:

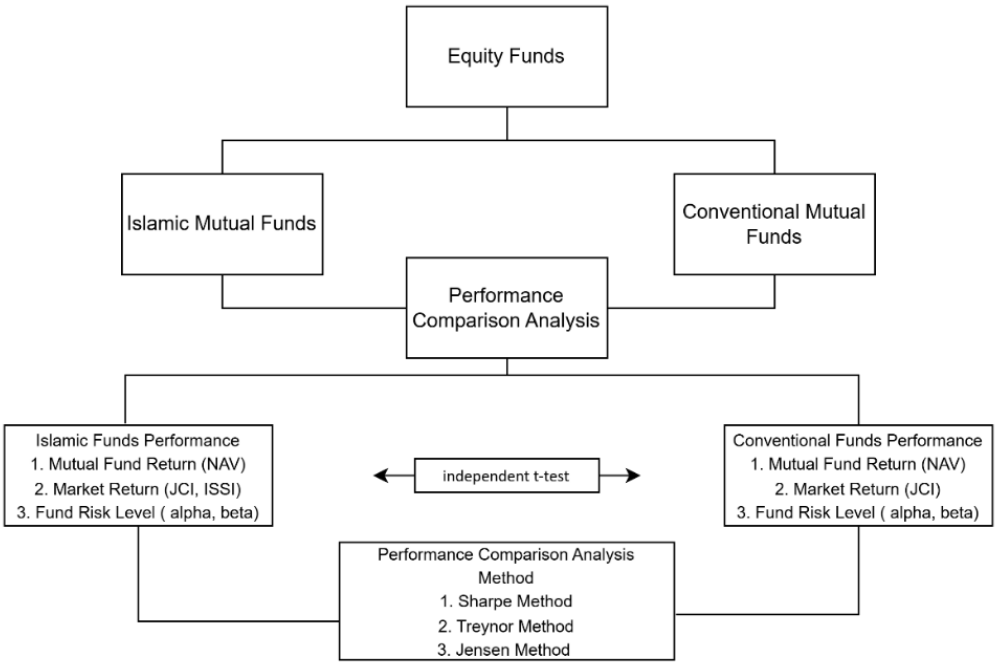

Figure 2. Research Framework

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Hypothesis Development

H_1 : Sharia Equity Mutual Funds Outperformed Conventional Equity Mutual Funds (Climent et al., 2020).
H_2 : Conventional Equity Mutual Funds Outperformed IHSG (Rebiman & Putera, 2022).
H_3 : Sharia Equity Mutual Funds Outperformed IHSG (Khajar et al., 2019).
H_4 : Sharia Equity Mutual Funds Outperformed ISSI (Kholidah, 2018).

This study employed a quantitative descriptive research method. This method aims to objectively describe a situation using numerical data, encompassing data collection, analysis, and interpretation. To analyze the performance of various Equity Mutual Funds, the researcher utilized comparative analysis. Comparative analysis is a systematic approach that involves the evaluation and comparison of two or more entities, variables, or options to identify similarities, differences, and patterns. This research relies exclusively on secondary data. Whereas the population of interest comprises the monthly Net Asset Value (NAV) of Conventional Equity Mutual Funds and Islamic Equity Mutual Funds chosen using purposive sampling method. The data encompasses the period from 2019 to 2023 and was obtained from the www.bareksa.com website. This timeframe allows for the evaluation of mutual fund performance during pandemic and post-pandemic period. Additionally, data on the Jakarta Composite Index (JCI) and Indonesia Sharia Stock Index (ISSI) was retrieved from the id.investing.com website to serve as a benchmark for comparison as well as the SBI Rate from www.bi.go.id. The method of determining the research sample was carried out using purposive sampling, following specific criteria shown in Table 1:

Table 1. Sample Criteria

No	Sample Criteria	Total
1.	Islamic Mutual Funds and Conventional Mutual Funds registered in OJK	1.506
2.	Islamic Mutual Funds companies and Conventional Mutual Funds that are still active from January 2019 to 2023 and have a Net Asset Value (NAV) published in print media.	215
3.	Islamic Mutual Funds and Conventional Mutual Funds available and listed on Bareksa platform during the period 2019 until 2023	74
The number of samples that meet the criteria		74
Research period		5
Total sample data for the period 2019-2023		**370**

Operational Definition Variables

To answer the formulation of the problem in this research, it is necessary to do hypothesis testing in accordance with what has been formulated. T-test is the method used in this research where, The T test or individual parameter significance test is used to find out how far the independent variables affect individually on the

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dependent variable. If the significant value below 0,05 then the independent variables together affect the independent variables (Ghozali, 2016). The following is an overview of the links between the variables of this study, where operation of the variable can be seen from below:

Mutual Fund Return

Mutual Fund Return calculation is simply done by subtracting the previous period's NAV (NAV t−1) from the current period's NAV (NAV t), then the result of the NAV difference is divided by the initial NAV. The formula is as follows: (Sharpe, 1966)

$$Rp = \frac{(NAVt - NAVt - 1)}{NAVt - 1}$$

Description:
Rp = Mutual Fund Return
$NAVt$ = NAV of measurement period
$NAVt - 1$ = NAV of the previous measurement period

Sharpe Method

The Sharpe Ratio is a fundamental measure in finance that quantifies an investment's return relative to its risk, providing insight into its risk-adjusted performance. Consequently, a higher Sharpe Ratio indicates that an investment is generating a greater return for each unit of risk taken, making it a more attractive option from a risk-adjusted perspective. The formula is expressed as: (Sharpe, 1998)

$$Sp = \frac{Ri - Rf}{\sigma}$$

Description:
Sp = Sharpe performance index.
Ri = Average return in a certain period
Rf = Average risk-free return (SBI rate)
σ = Standard Deviation of stock returns

Treynor Method

$$Tp = \frac{Ri - Rf}{\beta}$$

The formula above represents the Treynor Ratio, a key performance measure in portfolio management, often attributed to Treynor (2011). A higher Treynor Ratio indicates a better risk-adjusted performance, meaning the investment has generated more excess return for its systematic risk exposure. With the description components as follow:

Tp = Treynor performance index
Ri = Average return in a certain period
Rf = Average risk-free return (SBI rate)
β = Investment portfolio beta

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Jensen Method

Jensen's alpha is a measure used in finance to evaluate the performance of an investment portfolio relative to a benchmark index. It calculates the excess return generated by the portfolio over the expected return, which is predicted by the capital asset pricing model (CAPM). Assuming the CAPM is correct, Jensen's measure is calculated using the following four variables: (Breloer et al., 2016)

$$\alpha = (Ri - Rf) - (\beta(Rm - Rf))$$

Description:
α = Jensen Index
Ri = Average return in a certain period
Rf = Average risk-free return (SBI rate)
β = Investment portfolio beta
Rm = Average Market Return

RESULT AND DISCUSSION

This analysis examines the differences in performance metrics (Sharpe, Treynor, and Jensen ratios) with a total data of 18 Islamic equity mutual funds and 56 conventional equity mutual funds that registered in Bareksa, Indonesia from 2019-2023. These metrics are critical for evaluating risk-adjusted performance and provide valuable insights into how these different investment approaches performed during a period that included significant market volatility due to the COVID-19 pandemic.

First, we calculate the return of conventional equity mutual funds and the return of the JCI market and *Figure 3* show the return overtime from 2013-209.

Volatility Comparison

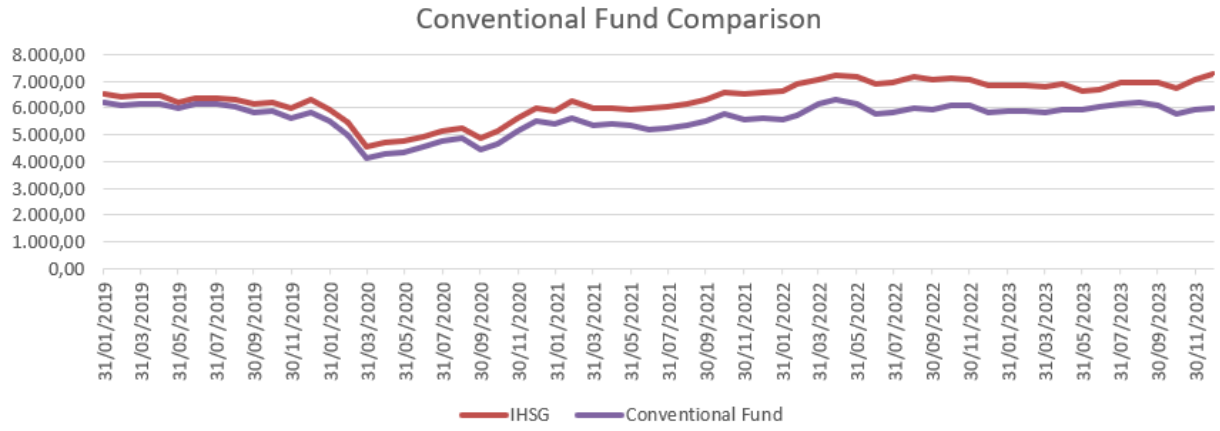

Figure 3. Conventional Fund Comparison to JCI
Source: Data processed by the author, March 2025.

Figure 3 show the performance comparison between return of the Conventional Mutual Funds (RDK) and the Indonesia Stock Exchange Composite

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Index (IHSG) benchmark from 2019 to 2023. This period captures several significant market events including the COVID-19 pandemic and subsequent recovery. Throughout most of the 5-year period, the conventional mutual funds (RDK) consistently traded at lower values than the IHSG benchmark. Despite the underperformance, the RDK closely followed the directional movements of the IHSG, suggesting a high correlation between the mutual fund performance and the broader market. Both the IHSG and RDK experienced a significant decline during the early pandemic period in 2020, with the IHSG dropping from around 6,000 points to approximately 4,500 points, and RDK following a similar pattern but with a greater percentage decline. Both indices began recovering in mid-2020, but the recovery rate for RDK appears to be slightly slower than the benchmark, widening the performance gap. The conventional mutual funds appear to have experienced greater volatility compared to the benchmark during market stress periods.

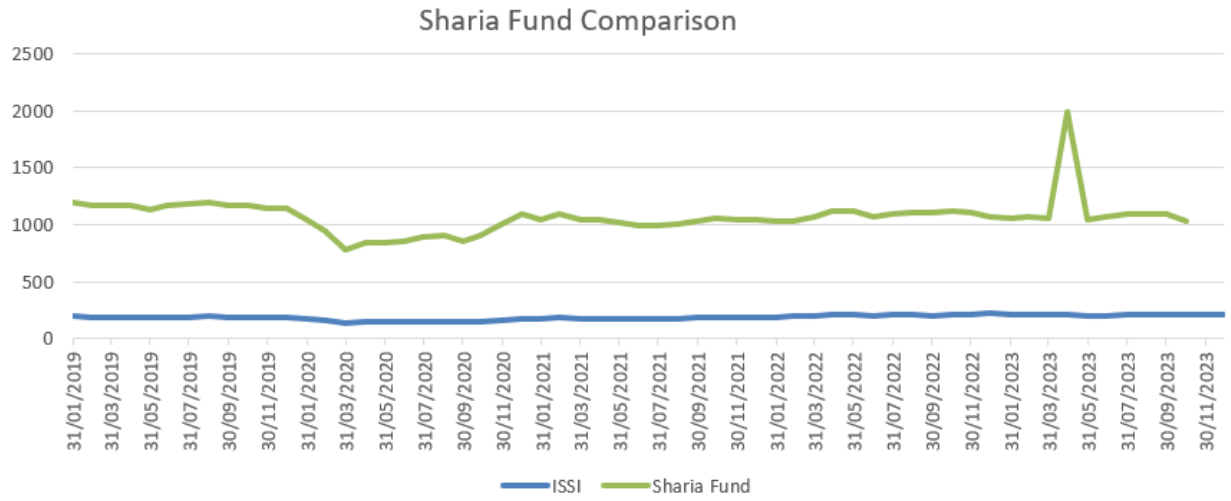

Figure 4. Islamic Fund Comparison to ISSI
Source: Data processed by the author, March 2025.

The same calculation was done to compare between Islamic equity Mutual Funds and the Indonesia Sharia Stock Index (ISSI) in Figure 4, where it shows a different scale relationship. Whereas Islamic Mutual Funds values are significantly higher than ISSI values. The graphic also shown Islamic Mutual Funds movements generally tracked ISSI patterns. Both ISSI and Islamic fund experienced sharp declines during the pandemic outbreak, with ISSI falling to approximately 134 points, and Islamic fund showing a proportional decline. The Islamic funds seem to have recovered along a similar trajectory to their benchmark, maintaining a relatively consistent relationship. The recovery pattern shows that both fund types maintained similar trajectories to their benchmarks, suggesting that fund managers in both categories were generally aligned with their benchmark exposures during the recovery phase. Islamic fund appears to maintain a more consistent relationship with its benchmark, possibly reflecting the more restricted investment universe of Sharia-compliant instruments.

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Statistic Descriptive

The following is an explanation of the descriptive variables used in the study to see the number of samples (noun), minimum value (minimum) maximum value (maximum) and average value (mean) of conventional mutual funds and Islamic mutual funds in 2019-2023. The average value refers to the average in one research variable, obtained by summing all data and dividing it by the number of data. The maximum value indicates the largest value in the data. Minimum value shows the smallest value in the data. The following Table 2 & 3 which shows descriptive statistics of mutual funds and Islamic mutual funds:

Table 2. Fund Performance over 5 years

Years	Islamic Mutual Funds			Conventional Mutual Funds		
	Sharpe	Treynor	Jensen	Sharpe	Treynor	Jensen
2019	-1,37	-0,08	-0,08	-1,15	-0,04	-0,04
2020	-3,37	-0,19	-0,16	-5,23	-0,25	-0,24
2021	2,25	0,16	-0,32	2,26	0,10	0,12
2022	-2,26	-0,15	2,12	0,90	0,01	0,04
2023	-2,40	-0,11	-0,10	-2,86	-0,10	-0,08
Average	-1,43	-0,07	0,29	-1,22	-0,06	-0,04

Source: Bareksa, March 2025.

Looking at the Table 2, where it provides an analysis of the performance comparison between Islamic Mutual Funds and Conventional Mutual Funds from 2019 to 2023. The table presents three performance metrics (Sharpe, Treynor, and Jensen) for both fund types over a five-year period. On average, both fund types showed negative performance across all three metrics, but Islamic Mutual Funds generally outperformed Conventional Mutual Funds on Jensen's alpha, while underperforming on the Sharpe ratio.

A yearly assessment of Islamic and Conventional Mutual Funds over the 2019-2023 period reveals notable performance patterns across changing market conditions. In 2019, both fund types began with negative performance across all metrics, with Islamic funds showing slightly worse in Sharpe ratios. As the pandemic struck in 2020, performance worsen significantly for both categories, though Islamic funds demonstrated better resilience with less severe Sharpe ratio declines (-3.37) compared to conventional funds (-5.23). The recovery year of 2021 saw both fund types rebound strongly with positive Sharpe ratios, with conventional funds showing marginally stronger recovery (2.56 vs 2.25).

A clear performance divergence emerged in 2022, where conventional funds maintained positive performance in sharpe (0.90) while Islamic funds returned to negative territory (-2.26). However, Islamic funds displayed a remarkably strong Jensen's alpha (2.12), suggesting specific holdings that outperformed expectations despite higher overall volatility. By 2023, both fund types experienced deteriorating performance, with conventional funds suffering a more severe in sharpe. Throughout

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this turbulent five-year period, Islamic funds appeared to weather market downturns with relatively less negative impact, while conventional funds showed stronger performance during recovery phases. The positive Jensen's alpha for Islamic funds in 2022 stands as the strongest outperformance indicator in the entire dataset, suggesting potential stock selection advantages in specific market conditions.

Table 3. Statistic Descriptive

Mutual Funds Performance	N		Minimum		Maximal		Mean		Std. Deviation	
	Sharia	Conventional	Sharia	Conventional	Sharia	Conventional	Sharia	Conventional	Sharia	Conventional
Sharpe	5	5	-3,37	-5,23	2,25	2,26	-14,30	-12,16	217,60	297,40
Treynor	5	5	-0,19	-0,25	0,16	0,10	0,07	-0,05	13,72	13,09
Jensen	5	5	-0,32	-0,24	2,12	0,12	0,29	-0,04	102,62	13,56

Source: Data processed by the author using SPSS, May 2025.

Table 3 showed a data processed using SPSS calculating an average performance for five years in the 2019-2023 time period. The results of descriptive statistics Table 3 can be explained as follows:

1. Upon analysis of Sharpe ratio performance approach, conventional mutual funds demonstrated a marginally superior mean value (-12,160) compared to their Sharia-compliant counterparts (-14,300), though both exhibited negative performance indicators. The minimum performance threshold for conventional funds in around -5,23 was positioned below that of Islamic funds with the value of -3,37, while maximum performance values displayed comparable magnitudes with conventional funds marginally exceeding Islamic funds. The predominance of negative values across both fund categories indicates suboptimal risk-adjusted returns relative to the risk-free rate during the period under examination.
2. Analysis of mutual fund performance utilizing the Treynor methodology revealed consistent patterns with the conventional funds maintaining superior minimum values compared to their Sharia-compliant equivalents. Maximum performance indicators demonstrated comparable magnitudes across both fund categories, with each attaining values of 0,10. The mean performance metrics, which reflect scenarios where risk-free rates exceeded obtained returns, displayed minimal variance between fund types; conventional funds exhibited a mean value of -0,0560, whereas Islamic funds presented a marginally inferior performance at -0,0740. The negative mean values observed across both mutual fund categories signify suboptimal risk-

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adjusted performance relative to systematic risk exposure, indicating inadequate compensation for market risk undertaken during the assessment period.

3. Performance assessment with Jensen methodology showed different results compared to alternative evaluation frameworks. Conventional funds demonstrated a superior minimum score (-0,24) relative to Sharia-compliant instruments (-0,32). However, maximum performance indicators exhibited substantial variation, with Islamic funds attaining significantly higher values (2,12) compared to conventional alternatives (0,12). The mean Jensen metrics indicate statistically superior performance for Islamic mutual funds (0,2920) compare to their conventional counterparts (-0,0400). This positive alpha coefficient for Sharia-compliant instruments indicates their capacity to generate returns exceeding theoretical expectations based on systematic risk exposure, demonstrating enhanced manager selectivity and potential market timing capabilities within the constraints of Sharia-compliant investment parameters.

Normality Test

Before run a hypothesis testing between each fund types, it's essential to confirm the data meets statistical assumptions by doing the normality test then independent t-test.

Table 4. Normality Test

Mutual Funds Performance	Significance		Alpha (α)	Description	
	Islamic	Conventional		Islamic	Conventional
Sharpe	0,159	0,930	0,05	Normal distribution	Normal distribution
Treynor	0,131	0,936		Normal distribution	Normal distribution
Jensen	**0,002**	0,921		Non-normal distribution	Normal distribution

Source: Data processed by the author using SPSS, May 2025.

Based on the results of SPSS data processing, the significance value of Sharpe data in the Kolmogorov-Smirnov column shows that the significance value is 0,200 greater than 0.05 (> 0.05), this indicates that the data used is normally distributed. Likewise, Treynor's data shows that the significance value of the data used is also normally distributed. Otherwise, in the context of Jensen's alpha method, the non-normal distribution in Islamic funds can indicates that there is a marked heterogeneity in terms of manager ability choose the portfolio or investment strategy effectiveness within the Islamic mutual fund category. This signals the need for methodological caution when making statistical comparisons, while simultaneously revealing important characteristics about performance variability and manager within this investment category.

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Different Test Results (Independent Sample T-test)

Table 5. Independent T-test

		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference
Sharpe	Equal variances assumed	0,67	0,43	-0,13	8	0,90	-21,40	164,80
	Equal variances not assumed			-0,13	7,32	0,90	-21,40	164,80
Treynor	Equal variances assumed	0,001	0,97	-0,21	8	0,83	-1,80	8,48
	Equal variances not assumed			-0,21	7,98	0,83	-1,80	8,48
Jensen	Equal variances assumed	5,15	0,05	0,71	8	0,49	33,20	46,29
	Equal variances not assumed			0,71	4,14	0,51	33,20	46,29

Source: Data processed by the author using SPSS, May 2025.

Sharpe Performance Comparison

The Sharpe ratio measures risk-adjusted return by evaluating excess return per unit of risk. In table 5 shows that the significance value is 0,900 which is greater than 0,05 (> 0,05) which indicates that there is no significant difference between the performance of conventional and Islamic mutual funds. The negative values for both fund types indicate that, on average, both Islamic and conventional funds underperformed compared to the risk-free rate during the study period. Although conventional funds had a slightly better (-1,2160) rather than Islamic funds (-1,4300) in Sharpe ratio, the difference was not statistically significant, suggesting that both types of funds performed similarly in terms of risk-adjusted returns. Furthermore, substantial standard deviation values, particularly pronounced in conventional

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instruments in 297,4 compared with 217,6 for Islamic counterparts), also indicate considerable performance variability within each fund category, suggesting inconsistent returns within both investment approaches.

The outcome of this research aligns with the findings of (Nursanita & Pratiwi, 2023) and (Mumtazah, 2022), where it stated that conventional funds slightly had a better performance compared to Islamic fund in Sharpe metrics. Research in 2023 also supports this statement, where Sharpe value shows better performance of conventional mutual funds (Surono et al., 2021). This contrasts with the previous findings where the Sharpe calculation results show that the average performance of conventional funds is inferior to the performance of Islamic funds, although there is no significant difference between mutual funds (Caisar et al., 2022). This can happen due to several factors, one of which is because the pandemic-induced market crash may have affected Islamic funds differently. Where Islamic funds have a lower exposure to highly leveraged companies (conventional banking) and also restrictions on investing in certain sectors that were heavily impacted because of sharia provisions.

Treynor Performance Comparison

Meanwhile the Treynor ratio measures returns earned in excess of the risk-free rate per unit of market risk (beta). This ratio offers an insight into portfolio performance relative to non-diversifiable risk exposure. Similar to the Sharpe ratio, empirical analysis revealed negative coefficients across both fund categories, indicating poor returns relative to systematic risk. Conventional funds equity mutual funds showed better performance at -5,60, compared to Islamic funds in -7,40, suggesting comparable performance between the two fund types when considering market risk exposure. Despite the apparent numerical difference favoring conventional funds, both investment approaches demonstrated statistically comparable effectiveness in generating returns relative to their systematic risk profiles ($p > 0,05$).

This finding is backed up by Tanama & Widjaja (2023) and Nursanita & Pratiwi (2023), where conventional funds consistently outperformed Islamic funds within the Treynor matrix. However, this evidence contrasts with other studies, from Pratama et al., (2021), which found no significant difference in the mean Treynor ratios between conventional and Shariah-compliant mutual funds. The negative values in the standard deviation indicate that the performance of each fund is not good. Additionally, similar patterns are observed where Islamic mutual funds have lower values compared to SBIS, and conventional mutual funds perform worse than SBI (Adhi et al., 2021). These occurrences might happen because the value of risk free is greater than the mutual fund return, which implies that investing in mutual funds becomes less attractive compared to other investment options. A higher risk-free rate signifies diminished profitability of mutual fund investments relative to alternative investment revenues.

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Jensen Performance Comparison

Jensen's Alpha measures the excess return of a portfolio over the expected return predicted by the Capital Asset Pricing Model (CAPM), indicating a manager's ability to generate excess returns. This measure presents the most notable contrast between the two fund types. Interestingly, Islamic funds showed a positive mean Jensen's Alpha (29,20), indicating superior risk-adjusted performance beyond CAPM predictions based on systematic risk exposure. In contrast, conventional exhibited negative alpha coefficients (-4,00), signifying the mutual funds underperformance relative to expectations. This positive alpha value for Shariah-compliant portfolios provides empirical evidence of returns exceeding CAPM. The 33,2-point difference in standard deviation represents the largest performance gap among all three metrics, this substantial difference for Islamic funds (102,62 vs. 13,56 for conventional) indicates that a few Islamic funds may have significantly outperformed while others underperformed, creating a non-normal distribution.

This is supported by the statement that the performance of Shariah-compliant mutual funds has been better than that of conventional mutual funds (Tanama & Widjaja, 2023). This suggests that Islamic funds may have selected securities that outperformed their expected risk levels and potentially exhibited higher dispersion in stock selection effectiveness. The strong market recovery following the pandemic may have favored certain investment strategies, and Islamic funds' positive Jensen's Alpha where it indicates that they may have captured this recovery more effectively relative to their systematic risk exposure. However, this finding contrasts with other results where it's imply that, according to the Jensen method, conventional mutual funds performed better than Islamic funds (Adhi et al., 2021)

CONCLUSION AND RECOMMENDATIONS

This research compares the performance of conventional equity mutual funds and Islamic equity mutual funds, to see the resilience of each mutual fund during the critical period and how it recovered during the period afterwards with the time period during 2019-2023. We found that in term of Sharpe ratio, in their calculations, Islamic mutual funds have not managed to outperform conventional performance. The same results can also be seen from the comparison of the Treynor calculation, where the conventional funds demonstrated superior performance when considering only market risk, suggesting a more effective response to broad market movements. The most notable finding is the positive Jensen's Alpha for Islamic equity funds contrasted with negative values for conventional funds, indicating potential outperformance relative to CAPM expectations. This shows that conventional equity mutual funds and Islamic equity mutual funds have comparable results, making Islamic mutual funds an equally viable option.

The findings of this study suggest that investors should not solely rely on the Sharpe, Treynor, and Jensen alpha ratios for investment decision-making. A more comprehensive approach, incorporating additional information and analytical tools,

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is warranted. Key factors to consider include broader historical fund returns, mutual fund beta, fund sizing, fund age, and Net Asset Value (NAV) trends. Future analyses could also benefit from a more in-depth examination of the specific impact of the COVID-19 pandemic on mutual fund performance. For investors prioritizing Sharia-compliant principles, Islamic mutual funds remain a sound investment choice. Conversely, for investors primarily focused on maximizing absolute returns, these funds may appear less appealing. We recommend that investment managers strategically adjust portfolio compositions to increase exposure to top-performing Sharia stocks**.** Furthermore, exploring the development of Sharia mutual funds investing in international equities could offer additional diversification and growth opportunities.

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