Comparative Performance Analysis of Selected Islamic and Conventional Mutual Funds of Pakistan

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Abstract

Mutual Funds channelize extra money and idle resources within economy. This study investigates the performance of Islamic and conventional mutual funds in Pakistan for the period of 2009 to 2014. This study examines the performance of Mutual Funds on the basis of Net Asset Value (NAV) with the help of Treynor, Sharpe and Alpha ratios. The study reveals that Islamic funds are not performing well in Pakistan but Islamic funds has less diversification which lead it into stable conditions in term of returns, while conventional funds has more volatility. Overall conventional funds perform better than Islamic in Pakistan.

Key words: *Islamic assets allocation funds, Islamic aggressive income, Islamic equity funds and conventional assets allocation, aggressive income and conventional equity funds.*

Introduction

Background

Mutual funds (MF) are considered as a pattern of investment to acquire funds from people and then investing these funds in a pool of securities to gain return that includes bonds, stocks and money market instruments. It is crucial in a sense that there is difference between individual funds and mutual funds because it is managed according to the rules of management rather than individual choices. Advantage of mutual funds is that it provides opportunity to small investors to manage their funds in a professional way and diversify portfolio of stocks, bonds, and other securities; without MF it is not possible for small investors to gain such diversification advantages with low amount of investment. The other main benefit is that mutual fund returns are higher and have lower risk than individual securities investment. Investors enjoy the profit earned by asset Management Company according to the units of quantity they hold. Mutual funds are two types; Open-ended and closed ended funds. Open Ended MF are those units of funds which are issued and can be buy back or redeemed according to the need at prevailing Net Asset Value per share, while the close end funds are those which are listed on most stock exchanges which can be easily and freely traded on the stock exchanges around the world.

Mutual funds are indirect investments in which capital is collected from various sources and then invested in different securities. The only thing that differentiates this investment is that it is being managed by professionals. Investor of MF gain profit in form of dividends, capital gain, interest, or NAV (Mears, 2000). In the early stage MF commenced in Europe in 1774. In 1868 it introduced in London as foreign and colonial government which is also called as foreign and colonial investment trust. Mutual funds introduced in United States in 1890. (Rouwenhors, 2004). These funds became famous in 1920's. Most of the funds comprised at the beginning were close ended (a sort of fund that is issued to investor and traded in secondary market with a fixed number of shares and cannot be redeemed once issued it to an investor). For the first time, open ended funds (a type of funds that is issued to different investors and can be subscribed and

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redeemed continuously) introduced by Massachusetts investor trust in 1924 which is now a part of MFS fund family. In 1929 a break down in the stock market investor need conservation, so congress passed securities act of 1933 which limited all asset management companies (fund offering co.'s) to register their self with the securities and exchange commission, and they must issue prospectus for investors (Fink, 2008). These acts which are passed by congress encouraged the investors to invest in stock market, Consequently, MF sector began to prosper and grow.

Global growth in mutual funds

Rapid growth is experiencing in the MF industry across the globe; according to ICI global research report (March, 2014), in the last two decade the global MF assets have been grown over the past period more than seven times. The report first analysed the post – 2008 financial crises in the world and their effects, a pool of MF around the world from different regions were considered. It also provides detail about the prerequisite for MF growth, such as the factors which are pouring the MF growth, like country regulatory authorities, economic development, and whether a country has defined contribution plan or not. The information related to a country equity market or stock market performance attracts the investors for investment in capital market (ICI global news and media, 2014).

The report exposed that population comparatively is young in Asia except in Japan. The proportion ripened is 65 and the older is likely to upsurge in the next coming 50 years. This factor shows that global middle class will increases from 1.8 billion to 4.9 billion people in coming years 2030- it is projected by organization for economic co-operation and development. The report reveals that there is potential growth outside the USA and Europe, because the middle class of an economy expand when the developing country mature. This also create several opportunities for investors to get benefit of diversification. Per-capita income of developing markets around the world is increasing and so is their demand for long term MF. The MF industry is growing not only in the US and Europe, but also in the Asian markets. This growth in the mutual funds industry is an economic indicator for financial development. Particularly this growth is contributing towards GDP and per-capita of many economies. Asia-pacific region is getting aware of MF investment, in order to manage and grow their assets (Honohan, 2008).

Mutual funds in Pakistan

Indigenous Mutual funds started in 1962 in Pakistan, under the sunshade of NIT (National investment trust) unit. Initially both sectors private and public offered close ended funds. In 70's the country went through nationalization process of publically held institutions. Shah and Hijazi (2005). But the later policy of privatization increased the number of publically held MF. In Pakistan MUFAP (Mutual Fund Association of Pakistan) is representing mutual funds in the country, and securities and exchange commission of Pakistan is the regulatory authority in the country. Gohar, Ahmed, & Niazi (2011). Mutual funds in Pakistan are booming because of the favorable policies of regulatory authorities Security Exchange Commission of Pakistan (SECP) and MUFAP.

In both developing and developed economies demand for MF is increases day by day as developed economies have increase the use of debts, equity, and others financial products instead of bank loan for financial uses. Globally there are such strong financial markets which doesn't exist in Pakistan. According to economic survey of Pakistan 2010-11 saving ratio was 13.8 percent, it will be increased in the future and the economy of Pakistan will prosper by introducing new boulevards of investment. It is estimated that 72 percent population of Muslims majority country don't use formal financial products (Honohon, 2007).

Islamic finance is now a days a wider field of finance, which is accepted internationally especially in Islamic countries. In the beginning Islamic finance and Islamic financial products were introduced in order to attract Islamic world especially the Gulf countries, but it enlarged in other regions of the world. Sharia boards and rulings in shape of Fatawas play an important role in the development of Islamic finance in general and MF industry in particular.

Islamic mutual funds

Islamic mutual funds are introduced in Pakistan by Al-Meezan investment management limited in 1995. Islamic MF market is not strong in Pakistan. Globally, Islamic financial system is increasing rapidly. During 2010 Islamic funds risen to US $58 billion (Young, 2011). Islamic fund industry is continuously growing, as Islamic fund managers reached to US $500 billion and it is growing from 10-15% per year. According to Islamic finance the forecasted Islamic funds are about $1033 billion, in which the contribution of managed Islamic funds is $321 billion. The growth rate notice in Islamic fund is 31% out of which only 5.6% is represented by managed Islamic assets (Young, 2011). In the second quarter of fiscal year 2012 the net value of Islamic funds in Pakistan comprised PKR 47.812 billion, which is far lower than the growth rate in other Islamic countries.

Most of the researchers (Honoan, 2008; Rouwenhorst, 2004.) suggested that MF has direct relationship with country development, therefore, the study of MF has great importance. Due to current scenario of MF in Pakistan, it has an immense importance to evaluate the performance of MF in Pakistan. There are lots of studies available from other countries on this sector, but in Pakistan there are few studies to explore the performance of MF in Pakistan. The current study contributes to the scarce research in this area especially in an indigenous perspective.

Objective

The objective of this research is to investigate the performance of Islamic and conventional mutual funds. This study is important for investors, students, shareholders, teachers, researchers, stakeholders, and as well as for businesses.

Literature Review

Researchers have evaluated the empirical relationship of open ended fund's performance for different periods, performance especially for urbanized economies. Researcher also found another relationship of mutual funds that is the fund's size and its return (Soderlind, Dahlquist & Engstrom, 2000). Gorman (1991) suggests that based on the net assets of mutual funds, smaller MF are performing better than large ones. Result points out that mutual funds swiftly exhaust economies of scale, and experience decreased returns (Becker & Vaughan, 2001). Soderlind et al. (2000) concluded that equity funds are the better performers in small size in Sweedish markets.

Investors always seek the profitable investment which gives them worth. So, mutual fund is one of the very important options to investors. Zafar et al. (2012) suggests that, this sector has growth trend. Regulation and government policy can influenced this sector (Prince & Bacon, 2010). Most of the researchers are interested in the consistency of mutual funds return, theory of efficient market tell us that fund manager cannot generate positive return consistently. All the active investment philosophies assumed that market is inefficient, and some of investment strategies assume that market is correct all the time, but they dramatize when new information come about particular individual stock. When new information comes to market then the particular firm's stock has two extreme either the prices go up or down. On good news prices go up, and on bad news prices go down, so individual firm's stock can be affected by news. There are other investment strategies that can make some sort of mistake in the assessment (the entire market can be over or under valued). This sort of mistake is usually made by mutual fund managers. The player systematically mispriced the stock. In this regard, Brown (1995) analyzed the performance of US mutual funds annually and found that the return are one after the other correlated over time, thus contradicting the efficient market hypothesis. Brown & Goetzmann (1995) also pointed out that historical prices are very crucial for future prediction.

In Pakistan, Shah and Hijazi (2005) found out that mutual funds industry is flourishing in Pakistan and its performance is comparatively better than other industries. This success is because of mutual funds' performance and regulatory authorities. However some funds are under performing because they are either less diversified or not diversified. Over all, mutual funds sector contributes and add value to the economy. Khan (2008) suggest that funds' performance is not dependant upon on the past performance it could be different in the future; it means that there is no relationship between the fund performance and future prediction. We cannot predict the future prices while using the past data (prices).

Performance of Pakistani MF

Jabeen (2014) suggest that in Pakistan conventional mutual funds pay more return than Islamic. The reason behind it is that conventional mutual funds are more in number, and the second reason is that Islamic mutual funds are new to the investors, most of them introduced after 2000. Analysis finds that from 2007 till 2012 the number of funds increased, but there is no or less growth in these funds. In this analysis period 2008 and 2009 are the worst periods, then again in the year 2012, it gave higher returns than previous year. It's very important to know that Islamic mutual funds provide stable returns during this analysis; it is because Islamic mutual funds are less diversified, because of this, it lead to stable return. Islamic funds cannot be invested in all others businesses. In Pakistan majority of the people favor Islamic financial products because of the religious factors, so government and other regulator should keep in mind that this sector should be prioritize in order to grow, because it contribute to the development of economy. Honohon (2007) has confirm that due to the religious factor 72% people in the Islamic countries do not preferred conventional products over Islamic.

Afza and Rauf (2009) analyzed Pakistani mutual funds and suggests that, narrow work has been done to assess Pakistani mutual funds. They measure the mutual funds' performance by using sharp ratio with help of collective time-series and cross sectional data and focusing on the different fund characteristic such as liquidity, fund size, expenses, turnover, and age etc. The result point toward that lagged return among different funds attribute, liquidity had momentous impact on fund performance.

Ali and Qudous (2012) inspected the performance of mutual funds in Pakistani context, the research try to point out mutual fund return and risk associated with it, and the ability of the fund's manager in minimizing the risk associated with it. Fifteen mutual funds were analyzed for the study. The research examine these fifteen mutual funds by using Sharp and Treynor measure, and suggest that the performance of mutual fund is not good in Pakistan.

Islamic funds' performance & subscription in selected regions

Islamic wealth management report (2010), the most essential part of the sharia compliant sector is Islamic funds, the investor demand is increasing in this sector globally and greater portion of the wealth is held by these Islamic investors. The Asian development bank estimate that Islamic assets at US$1 Trillion and will grow it 10-15% annually. Islamic finance information services (IFIS) has wide-ranging database on Islamic funds. It listed 556 Islamic funds with a total value US $22.8 Billion. These funds are focused on a multiplicity assets classes such as 54 percent equities, 15 percent mixed assets, 17 percent money market, 7 percent real estate, 5 percent Sukuk and 2 percent others. It targeting regional investments mostly GCC/MENA (Middle East and North Africa) international, Asia/pacific and other emerging market. The average performance of these funds closely related to its benchmark, hence a successful investor need to form a judgment on the basis of management commitment and ability to surpass, rather than on the basis of stalk the index performance. New Islamic funds introduced to market in 2009, to take advantage of rising interest in Sharia compliant funds, even though in the financial crises. Funds are being instigated at an unparalleled rate, non-Islamic finance such as NBK (National bank of Kuwait) which launched its first KD Ijarah fund in June. The second Islamic KD fund was fully subscribed within one day in August. The investors demand increased from day first and NBK then introduce its 3rd KD Ijarah funds one month later, which offer equivalent of 6 percent annually throughout the life of the fund. The minimum investment in the Kuwait dinar denominated fund is US $100000.

Ethical funds and conventional

Bauer, Koedijk and Otten (2004) analyzed the data from 1990 to 2001 and used multi-factor model (carhart) to differentiate between ethical and unethical MF. There was no confirmation of momentous differences in risk-adjusted return between conventional and ethical mutual funds. The outcomes of the study also suggested that ethical funds undergo a contagious up phase, before distributing financial returns alike to those of conventional mutual funds. During the last decade although ethical mutual funds represent a tremendous growth in assets, but the mutual funds industry still show some unimportant part in the total retail market. A serious factor that determines the taking of ethical mutual funds into the mainstream investment field is their financial performance; however, in some countries it performed better than conventional. In Saudi Arabia, Malaysia and Europe, ethical and Islamic mutual funds perform better than conventional, while in Pakistan and some other Asian countries conventional mutual funds performed well. Therefore Bauer et al. (2004) used 103 ethical mutual funds internationally; the performance of United States, United Kingdom and German ethical mutual funds and their approach of investment are analyzed. They found out the added value of more complex multi-factor models. Their findings were close to not only perk up performance measurement, but more detailed analysis of mutual funds is also possible through their used Carhart model.

Mutual fund and Emerging Economy

Bishop, Seerattan and Watson (2007) analyzed the performance and structure of mutual funds in an emerging economy of Traninidad and Tobago. They compared banks equity funds with mutual funds. The study was conducted for the period of June 2001 to May 2005. They used sharpe ratio to measure the relative performance of mutual funds. Study concluded that the return on both type bank equity funds and first unit scheme (Mutual fund) are not significantly different.. Bishop et al. (2007) recommended some suggestion in order to implement and enforce regulations for the risk adjusted rate of return, so that the general investors should know and make informed decisions about investing in alternative investments or mutual funds.

Baklanova, (2010) studied extensive literature about the Money Market Fund (MMF) industry. Her contribtuions provided an introduction to larger studies regarding cash management and global money market for comparative regulations. The article investigated funds investment practices and issues in emerging money market industry, while keeping in view the banking and securities laws of Europe and USA. The article tried to answer the question, about the role of MMF as an important tool of cash management and a major source of financing with regards to unresolved regulatory issues and structural deficiencies. This research also helped in understanding the functions of MMF in the global financial markets, and also helpful in capital formation.

Furthermore, Cheema (2003) stated that the development of an appropriate corporate governance culture is contingent upon the adoption of a regulatory framework considering the particular legal and economic environment of Pakistan. The primary objective of the regulations regarding securities markets should seek to ensure sufficient protection for minority investors without bureaucratically restricting the discretion management of listed companies in making business decisions. This difficult balance may only be achieved, if institutional investors generally and mutual funds particularly are encouraged to play a significant role in corporate governance. It can be only possible if the institutional level investors in general and mutual funds in particular, play a vital role in the importance of corporate governance. A review of the Non-Banking Financial Company (NBFC) Rules in year 2003 indicates that the new regulatory framework put in place for mutual funds is based upon the right premises and well facilitate mutual funds to develop in such a way that they may become significant market participants. The implementation of the rules and their further development should be considered in the light of the specific regulatory concerns highlighted. Furthermore, it is imperative that the SECP should recognize the significance of mutual funds and related NBFCs' for corporate governance and the role they can play in developing the public's confidence in the securities markets. Therefore, the SECP should exercise its new jurisdiction in such a manner as to facilitate the growth of mutual funds while at the same time ensuring that the internal corporate governance of these funds is flawless. This would require a strong and symbiotic partnership between the regulator and the regulatee.

The demand for Islamic mutual funds globally increases because of their remarkable growth. Investors want to comprise Islamic mutual funds in their portfolio. Initially this growth was started from Malaysia (29 percent of the growth patterns across the globe) (Mansor & Bhatti, 2009). Mansor and Bhatti (2009) investigated the risk and return of the funds and comparison of the fund's performance with relative market benchmark, the research was taken for the period of 1990 to 2009 by using panel analysis. The research suggests that there is irrelevant difference in risk and return or funds' performance as compare to conventional or single and multiple benchmarks. This paper also divulges that market timing is not important while the selection of funds is very crucial. This implies that the performance of Islamic funds is totally dependent upon on the manager skills and ability. On the other hand, result show that Islamic funds' performance is analogous to the market benchmark or conventional funds. The research is benefiting prospective investors and it also helpful for market players, who are taking part in mutual funds sectors, especially mutual funds industry in Malaysia. Furthermore this research is helpful and is providing knowledge on Islamic mutual funds' performance in the field of finance.

Fauziah *et al.* (2007) argumented that the Malaysian mutual funds industry underperformed the benchmark, even it also underperformed than risk-free rate. The worst case showed that Malaysian mutual funds give zero and negative return as compare to its market benchmark (whether market benchmark give higher return and mutual funds negatively performed). There is negative performance of mutual funds in both either the Kuala Lumpur Stock Exchange Composite Index or EMAS index. Elfakhani et al. (2005) study 46 international Islamic funds and reveal that there is no significant difference in the conventional and Islamic mutual funds, the return of both funds are same compare it to their respective indices. They concluded that with the passage of time the funds are improving as manager get more experience and gain more information in the same field or market, and the fund's performance are getting better. Elfakhani and Hassan (2007) find out that there is no any considerable differentiation between Islamic and conventional funds, However the Islamic funds come into sight to be somewhat better in performance. Therefore they put forward that there is no risk adjusted abnormal return or punishment connected with investing in Islamic funds. Abdullah et al. (2007) concluded that during in economic booming conventional mutual funds performed better than Islamic while in downturn periods Islamic funds performed better than conventional funds, so therefore both kinds of funds are very important to a particular portfolio. Therefore, can't suggest that which funds to be take in, and which to prohibit because both funds have their different qualities and uniqueness.

Nazir and Nawaz (2010) study 13 family equity funds for the period of 2005 to 2009 by using fixed effect and random model. They estimated the determinants of funds growth in Pakistan. The result shows that expense ratio, family proportion, and assets turnover are optimistically leading the growth of the funds in Pakistan. On the other hand two factors are negatively linked with mutual funds growth, one is the management fee and the second one is the risk-adjusted returns these two are negatively connected with the funds growth in Pakistan. They put forward that mutual funds industry play important role in the economies.

Mughal (2010) in his study a sample of conventional mutual funds and Islamic mutual funds investigated which are managed by HSBC. The HSBC is the 4th largest manager funds in Saudi Arabia. The timeline for the study is from January 2003 to January 2010. The risk return behavior is investigated by applying various performance measures e.g. Jensen alpha and its variants, Treynor and Sharpe. The sample timeline is divided into four categories such as the financial crisis period, bearish period, bullish period and full period. The selectivity of HSBC management portfolio and market timing are also investigated. The study concluded that Islamic funds lag the conventional mutual funds during bullish period. On the other hand, during financial crisis period and bearish period, the Islamic funds over performed the conventional mutual funds. The results are in conformity with the existing previous studies about conventional and Islamic mutual funds. The HSBC management is very good at selectivity and timing for Islamic mutual funds during the bullish period. One of the important finding of the study is that Islamic mutual funds offer a great opportunity for the investors during economic recessions due to the restrictions imposed by Islamic law on portfolio selection.

Hayat and Khurram (2011) Conventional and Islamic equity funds differ from each other because Muslims are prohibited to receive or pay interests and have limited ability to invest (Hayat & Khurram, 2011). Considering it a topic of interest Hayat and Khurram (2011) evaluated the performance of Islamic equity funds. Their study concluded that there is no difference in performance of Islamic funds and conventional funds. In fact Islamic funds are comparatively a safe investment and didn't outperform the benchmark under normal market conditions. But during 2002, the Islamic Equity Funds (IEF) however outperformed the conventional mutual funds. IEFs are very much attractive for a fully diversified large portfolio because they had a great system for risk to return ratios but it also depends on the ability of IEF managers. The Malaysian Islamic equity funds manager and other globally invested Islamic equity funds managers had better stock picking skills relatively good marketing abilities.

Methodology

Data Sample

This research paper has compared three categories of funds (i.e. assets allocation, aggressive income, and equity funds) from both conventional mutual funds (15 companies) and Islamic mutual funds (12 companies). All the 27 mutual funds management companies (12 Islamic and 15 conventional) are listed within mutual funds association of Pakistan (MUFAP). These data of the funds were analyzed on the basis of net assets values (NAVs) within the period of 2009-2014.. The following table 1 shows the number of mutual funds used for the analysis in this research paper.

Table-1- number of mutual funds in study period

S NO	FUNDS CATOGERIES	TYPES	2009	2010	2011	2012	2013	2014
1	Assets Allocation	Islamic	3	3	3	3	3	3
2	Aggressive Income	Islamic	4	4	4	4	4	4
3	Equity	Islamic	5	5	5	5	5	5
4	Assets Allocation	Conventional	4	4	4	4	4	4
5	Aggressive Income	Conventional	6	6	6	6	6	6
6	Equity	Conventional	5	5	5	5	5	5

Ethically it is inappropriate to disclose the identity of the assets management companies whose data has been analysed. However, the sample data consists of 27 assets management companies of mutual funds sector with highest market capitalization. In Pakistan, there are very few companies who are offering close-ended mutual funds. Therefore for this research only open-ended mutual funds (Islamic and conventional both) has been considered. The data from each year has been evaluated individually and then an aggregate analysis for the whole time period has been delivered. Mutual funds monthly prices and interest rate are extracted from Jan 2009 to Dec 2014 which consists of 72 observations each. KSE 100 index logarithmic returns also contain 72 observations. For the risk free rate, twelve months Treasury bill is considered as risk free rate from the official website of State Bank of Pakistan (SBP) and Karachi stock exchange (KSE) is serving as a capital market. Data is collected from multiple sources, for example, all the funds NAV and offering prices are available at assets management companies' official websites, but in Pakistan only daily prices are available. For monthly prices, study simply takes the averages of every month. The data is collected from tertiary and secondary sources. For the market portfolio data is taken from yahoo.com/finance closing prices of KSE 100 index. Treasury bill as risk free rate is taken from the official website of state bank of Pakistan.

Data Analysis

The following ratios have been used in this paper to analyse the data: - .

Sharpe ratio

In 1966 Sharpe ratio was developed by Nobel laureate William F. Sharpe. This ratio measures the risk-adjusted performance.. The Sharpe ratio is used to evaluate performance of portfolio. The ratio helps to make the performance of one portfolio comparable to another portfolio by adjusting for risk; this allows you to determine whether a portfolio returns are due to a smart investment decision or just a high level of risk. The general role of thumb is that a ratio of one or higher is considering a good adjusted-return. Higher the ratio, higher will be the portfolio performance. Using this ratio, let you see that how much additional return you are getting for the additional risk that you have been taken or holding riskier assets over risk-free rate. Sharpe ratio can be calculated as:

Sharpe Ratio = [(Rx-Rf) / StdDev(x)]

Where

X = Investment

Rx = Average rate of return of X

Rf = Best available rate of return of a risk-free security

StdDev = Standard Deviation of Rx

Treynor ratio

The Treynor ratio is a risk adjusted (relative) measure of portfolio performance. In the numerator is excess return, the return that the portfolio manager earned that is in excess of risk-free rate of return. A portfolio manager certainly hopes that the numerator is positive, the excess return is divided by the portfolio beta. Treynor ratio gives the excess portfolio return per unit of systematic risk. Treynor ratio can be calculated as:Tp = Rp-Rf/βp

Where

Rp = Average return of portfolio

Rf = Risk free rate

Bp = beta of the portfolio

Alpha (Jensens alpha)

Alpha is an absolute measure of performance, the value of alpha indicates the value added/subtracted from the portfolio as a result of portfolio management. Alpha can be calculated as:

A = Rp-[(Rm-Rf) βp

Where as

Rp = return of portfolio

Rm = market return

Rf = risk free rate

βp = beta of portfolio

The formula shows that the alpha of the portfolio (A) is equal to the actual portfolio return "Rp" minus the term: [Rf+(Rm-Rf)βp]. This is actually the CAPM (Capital assets pricing model) which is used to produce the require rate of return for an asset. So alpha of portfolio is simply the actual portfolio return minus the return that the investor expected to earn- when they invest in the assets.

If the value of the above three ratios are greater than zero then it is the indication that mutual fund has better performed. Higher the value of the ratio better will be the performance and vice versa. If Treynor ratio is more or higher than alpha then this indicates that the state of security is good.

Discussion year by year

Period of 2009

In 2009 assets allocation funds (conventional) shows positive return, while Islamic assets allocation show negative inclinations, so conventional assets allocation performed better than Islamic assets allocation funds. Equity performance was good in both division in Islamic as well as in conventional, few of them also show negative return. Although Islamic funds like Atlas and Meezan provided highest return, while from other side Askari funds (conventional) has the highest return in this year. Few aggressive funds show negative and some of them also show positive return. Performance of both Islamic and conventional was founds in this year the worst case. Overall return was not good in this particular year however their Treynor ratios was good in this year and Treynor ratios value was more than the alpha values which mean that the state of the security was good in this year.

Islamic aggressive fix income funds show lower risk than conventional aggressive income funds. Overall actual risk was more than the expected risk in this particular period. In aggregate we can say that no one funds class performed well in this year, and overall market show negative attitude.

2009

	Islamic funds	Conventional funds
Sharpe ratio	-19.3456	-70.1865
Treynor ratio	-1.345167	-477.8765
Alpha	-0.13458	-0.65439

Fig1:

Period of 2010

In this year situation of Islamic funds was pretty good. Islamic assets allocation funds actual risk was less than the conventional assets allocation funds. In this year Islamic assets allocation funds give positive return while many conventional assets allocation funds provided negative returns. The same case found within aggressive funds, Islamic aggressive income funds returns was positive while conventional aggressive income funds returns was negative, however in case of equity funds, mostly conventional equity funds provided positive return while few Islamic equity shows negative returns. Conventional equity funds actual risk was less than Islamic equity funds. The condition of Islamic mutual funds was pretty good in this year, as we see the overall actual risk for Islamic funds was less than expected in this year, which reflect that overall Islamic funds out perform in this year.

As we see that Islamic funds overall actual risk is lower than conventional, and performed better than conventional funds. Conventional funds were more risky in this particular year. We can say that there was stability in overall Islamic funds.

2010

	Islamic funds	Conventional funds
Sharpe ratio	-33.7654	-45.8765
Treynor ratio	0.1867894	11.12792
Alpha	-0.07323	-0.13828

Fig2:

Period of 2011

In 2011 growth was expected as we see that there was less risk as compared to the previous year. Many funds provided positive returns, but very few of them show negative return. Islamic funds' performance was good in this year. Open-ended conventional funds give positive returns and few shows negative behavior. Some funds show that their actual risk was more than the expected risk. Islamic assets allocation funds actual risk was more than the expected, while conventional assets allocation funds actual risk was less than expected risk.

If we look into aggressive fix income (conventional) which provided positive returns and their actual risk was also lower than the expected, so we can decided that there is growth in this sectors. In case of equity funds some of them provided positive return and few show negative returns, but the actual risk of Islamic equity was less than expected.

Overall none of funds whether conventional or Islamic funds performs well, but if we look to their returns as compare to market returns was better. This mean mutual funds' performance was better within the economy of Pakistan. As we see Islamic funds aggregately perform well, which is a sign of growth. Number of funds also increases in both divisions which is good for equity market in future.

2011

	Islamic funds	Conventional funds
Sharpe ratio	-106.76754	-122.76543
Treynor ratio	-17.98765	-36.98765
Alpha	-0.3335	-0.7255

Fig3

Period of 2012

In 2012 year, all the funds show improvements. The performance was pretty good than previous year, this period was showing many positive returns for both classes conventional and Islamic funds. Only few show negative returns. As we see the assets allocation funds of both Islamic and conventional performs well and many of them show positive returns, but the risk of assets allocation funds was more than the expected. Other categories of funds show positive behavior, aggressive fix income (conventional) give positive returns and the risk associated with it was lower than the Islamic funds. The overall result was good in this particular period which show that mutual funds sectors in Pakistan is improving.

On aggregate basis Islamic funds have lower returns than conventional funds in 2012. In case of Islamic actual return also lower than expected returns.

2012

	Islamic funds	**Conventional funds**
Sharpe ratio	70.324567	49.9899
Treynor ratio	0.15786	91.98887
Alpha	0.412356	0.31356

Fig4

Period of 2013

In this year all classes perform better as compare to others period under analysis. Conventional and Islamic funds provided positive returns but few of them show negative returns. Overall mutual funds sectors have been improving. Conventional fund has positive returns and also has lower actual risk than the expected. All assets allocation (conventional) provided positive returns but there are few Islamic assets allocation funds which show negative behavior, and the actual risk was more than the expected

All equity funds provided positive returns, the risk of equity funds was also lower. In case of Islamic equity, the risk was more than the expected risk. Aggressive income funds (conventional) out performs. Overall there was growth, and conventional funds play better role than Islamic funds in this particular year.

2013

	Islamic funds	**Conventional funds**
Sharpe ratio	30.76543	66.76543
Treynor ratio	0.23145	60.98723
Alpha	0.98765	0.123456

Fig5

Period of 2014

As we see in this period all categories of funds provided positive returns, in the equity some Islamic and conventional both show negative behavior. Overall conventional equity funds was better in this year.in case of aggressive fix income the performance was pretty good of both division, and the overall risk was lower for all aggressive income funds

Islamic assets allocation was also perform well as compare to others periods. The result shows that conventional funds in this particular year were better than the Islamic funds, and we can say that there is tremendous growth in this sector in Pakistan. Treynor ratio of this year is better and more than the alpha of both division which mean that the state of security of Islamic funds is also good. In this year we have positive ratios which are good.

2014

	Islamic funds	**Conventional funds**
Sharpe ratio	40.6754	98.7654
Treynor ratio	0.87654	57.8794
Alpha	0.56432	0.98076

Fig6

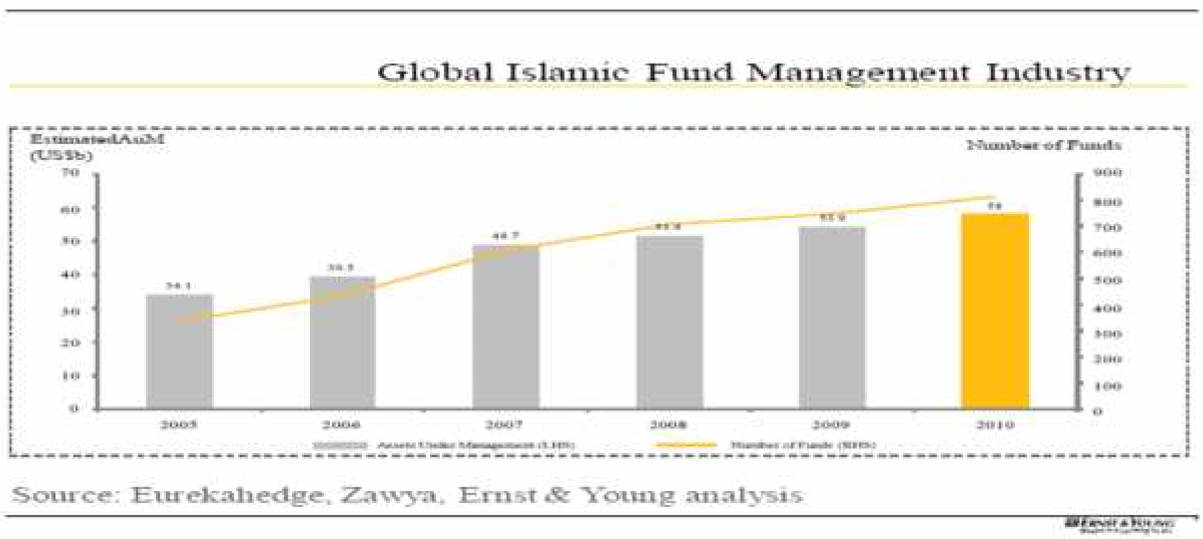

Fig7 ***Global Islamic fund industry***

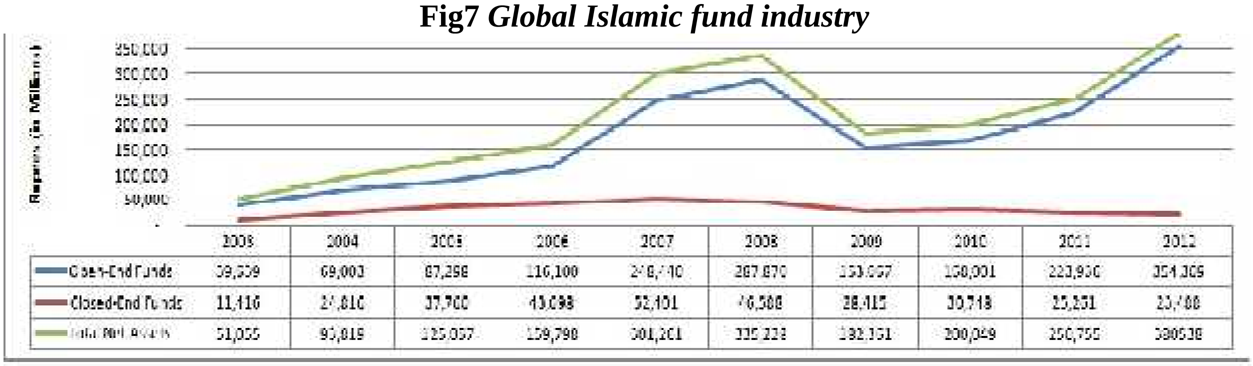

Fig8 ***Industry Growth Source: MUFAP (Mutual fund association of Pakistan).***

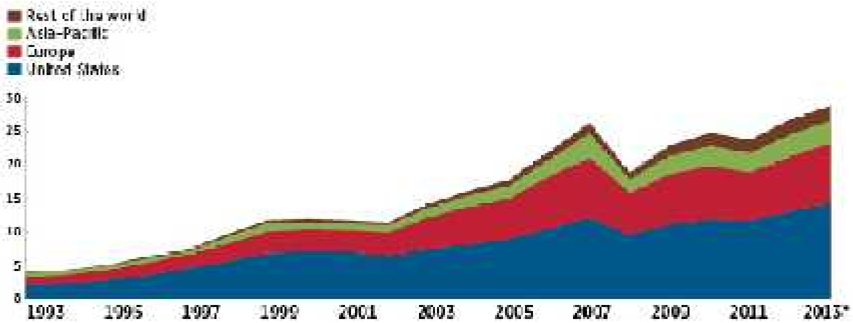

Fig9:***Source International investment fund association*****.** ***(ICI Global)***

As we know those six years is not adequate period to pass any conclusive decision. We cannot predict the accurate decision and cannot find out the exact performance of mutual funds through this analysis as whole, because our study is just for six years. However our analysis shows that mutual funds are not performing well in Pakistan as others securities performed. There is no single firm which performs well in relation to market. The condition of mutual funds was not good and worse cases found in 2009, and again the condition was going to be better and there was little stability. In 2010 the condition of Islamic funds overall was good than conventional. The total risk was more in 2009, and in 2010 the actual risk was more than the expected. The return of 2011 and 2012 were higher than other previous periods, and also there were positive total return in 2013 and 2014.the condition was pretty good in this period. We finally come to know that there was great volatility in conventional funds than Islamic mutual funds. Other interesting things which is also a sign of hope for investors, that is numbers of funds were increased in this analysis periods. Our study reveal that Islamic funds having more stability than conventional funds and conventional funds are more in number than Islamic funds in Pakistan.

Conclusion and Recommendations

With the help of Sharpe, Treynor and alpha ratios our research question is addressed. The ratios show that conventional funds perform better than Islamic funds in Pakistan in term of risk and return. So in Pakistani mutual funds industry conventional mutual funds play crucial role, the reason is that the number of conventional funds is more than Islamic funds. Our study has found that number of funds increased from 2008-2009 to 2013-2014. The highest return started from 2012 till 2014 and the situation was very bad in 2009, then in 2010 and onward risk started to minimized. The growths in mutual funds were started from 2010 to 2014. In Pakistan there are few businesses which operating their businesses on Shariah principle, so these Islamic funds having less diversification, therefore, it cannot be invested in every businesses. We come to know that these Islamic funds having less diversification, because of this less diversification it lead to stable return within every financial system. We have two sources of funds in every financial system one is credit financing and second one is capital market (Honohan, 2008). The credit sources and capital market both are playing in the development of economy, but if the trend from credit financing shifts to capital market then there will be efficient utilization of saving, this will lead to channelize extra money (idle), this will also provide better return. Ultimately results show that there is improvement in financial system and development of the economy. In Pakistan many people preferences are to invest in Halal business (Islamic products) and avoid Haram (Interest base or conventional product), this is because of religious factors. As Honohon (2007) proved that due to the religious factor 72 percent people don't use conventional products because of the religious motive. In Pakistan capital market is still poor. Government needs to make legislation about it, and others regulatory authority should also focus on capital market in Pakistan. They need to take corrective actions while strengthening this sector. Capital market in other countries is very strong like USA and UK while it is not as stronger in Pakistan. The reason behind it, is lack of knowledge. Investors don't know about the return of capital market Abderrezak (2008), they complex the return of capital market with the return of others sector.

It's the duty of regulatory body to educate the people about investment. In Pakistan there are many funds, but these are very few as compare to other countries. So we come to know that there is gap (investment options increases). The most important thing which this study noticed that investors need protections, this can also lead this sector to boom. Finally this sector can be boosted by four things.

1) Protections of investor rights 2) educating investors 3) reduction in management cost 4) factual policies and transparency.

   The notable things in mutual funds industry is that gaining investors trust. Finally I recommended that growth in this sector can be expected and it's very imperative because mutual funds contribute toward economy.

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