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PERFORMANCE OF ISLAMIC AND CONVENTIONAL EXCHANGE TRADED FUNDS IN MALAYSIA

*Abdou Diaw**, *Salwana Hassan*** and *Adam Ng Boon Ka****

Abstract:

ETFs have attracted many investors as one of the most innovative products of financial engineering. By virtue of the nascent nature of MyETF-DJIM Titan 25 and FBM 30ETF in Malaysia, comparative performance studies are essential during a financial crisis. MyETF is different from FBM 30ETF in terms of investment scope and Shari'ah governance structure. While MyETF has achieved its objective in tracking its index, FBM 30ETF has failed in this respect. Despite its higher total risk, MyETF performed better than its index. The same applies in the case of FBM 30ETF. Although MyETF has bigger net assets, economies of scale, and better diversification, the performances of the two funds are lacklustre and similar, with FBM 30ETF performing somewhat better. Notwithstanding their success to outperform their respective benchmarks, both ETFs had comparable negative performance, with decline in prices and NAV. The negative returns have caused abnormality in their measurements.

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I. INTRODUCTION

Being one of the most innovative products of financial engineering in the 20th century, Exchange Traded Funds (ETFs) have attracted a wide array of investors as their advantages outweigh their inherent risks. Defined by the Securities Commission of Malaysia (SC) as ‘a listed index-tracking fund, structured as a unit trust scheme whose primary objective is to achieve the same return as a particular market index...’, ETFs are essentially open-ended unit trust funds, listed and traded on a stock exchange with unique in-kind creation and redemption mechanisms supported by participating dealers and liquidity providers.¹

According to Ferri (2008), ETFs marked an imperative investment revolution that began in 1924 with the first open-end mutual fund offering. In the wake of the market crash of 1987, and by request of the law firm of Leland, O’Brien and Rubinstein, the U.S. Securities and Exchange Commission started reviewing and rewriting securities regulations to facilitate a novel kind of exchange-traded vehicle. In 1990, the SEC issued the Investment Company Act Release No. 17809, which ultimately paved the way for the formation of mutual funds that allowed for share creation and redemption during the day (Ferri, 2008). In 1993, ETFs were first introduced in the U.S. by State Street Global Advisors to track the S&P 500 index (Hamedanchi, & Altenbach, 2009).

Taking into cognisance the advantages², Shari‘ah-compliant ETFs, rather than a Shari‘ah-based innovation, seek to provide investment opportunities beyond the existing pool of investment, for Muslim investors and ethical investors, as part of its integration process into the international financial system. While there had been

1 For more details, see Prospectus on the Fbm30etf and Prospectus on Myetf Dow Jones Islamic Market Malaysia Titans 25.

2 Convenience, diversification opportunities, lower cost, tax efficiency, transparency, low management fees, higher degree of pricing efficiency, index derivatives markets efficiency and liquidity enhancement.

unprecedented growth of the conventional ETFs, Sharī‘ah-compliant ETFs found their rightful place only in February 2006 when the Dow Jones Islamic Market (DJIM) Turkey ETF was listed on the Istanbul Stock Exchange to track the performance of the DJIM Turkey Index.

In January 2008, MyETF DJIM Malaysia Titans 25 (MyETF) was established with a net asset value of USD260 million (RM910 million), an initial fund size of 840 million units and authorised fund size of 10 billion units. This establishment provided global asset managers and investors with a unique vehicle for attaining desirable portfolio exposure to a new asset class in Asia. Its benchmark index - DJIM Malaysia Titans 25 Index - is reviewed quarterly and is based on the securities of 25 leading Sharī‘ah-compliant companies that are traded on Bursa Malaysia. It is managed by *i*-VCAP Management Sdn. Bhd., a wholly-owned subsidiary of Valuecap Sdn. Bhd.³

With an initial authorised fund size of 500 million units, the FBM30ETF was established pursuant to the SC’s Guidelines on ETFs with AmInvestment Services Berhad as the manager. FBM 30ETF was listed on the Main Board of Bursa Malaysia on 19th July 2007. Its benchmark, i.e. FTSE Bursa Malaysia Large 30 Index, has the largest thirty stocks, by market capitalisation, which are screened for liquidity, investability and free-float tested (Prospectus on the FBM30 ETF, 2008).

Increasing crude oil revenues have also further triggered interest from companies, particularly those in Asia, to issue Islamic ETFs. The Islamic capital market can expect more issuance of Islamic ETFs from Asian countries like Japan⁴, Taiwan⁵ and Malaysia within the next

3 MyETF-DJIM25 Annual Report 2008. The stock short name and stock number for MyETF-DJIM25 are “MYETFDJ” and “0821EA” respectively.

4 Japan’s Daiwa Asset Management, which listed its first I-ETF (the Daiwa FTSE *Shariah* Japan 100) on the Singapore Exchange in May 2008, is eyeing other markets including Hong Kong and London to list its I-ETF (Islamic Finance News, December 12, 2008).

5 Taiwan also plans to list an I-ETF on the Abu Dhabi Securities Exchange in the future (Islamic Finance News, December 12, 2008).

two years.⁶ As existing literature on ETF generally lacks empirical analysis of Islamic ETFs, this paper is a pioneering empirical research on the world's largest Islamic exchange traded fund. By virtue of the nascent nature of both ETFs in Malaysia, a comparative study may shed remarkable light in relation to their performance amidst the current financial crisis.

Following this brief introduction, Section 2 will lay down the structure and trading mechanics of ETFs prior to the identification of selected issues and current development of Islamic ETFs in Section 3. Being the kernel of this paper, Section 4 attempts to add value by providing a comparative performance study of both ETFs. A brief explanation of our data and method employed will be followed by a comparison in two phases, viz.: (i) individual evaluation of the ETFs vis-^{'azza}-wa jalla-[']vis their respective benchmark indexes; and, (ii) comparison between the performance of both ETFs. The last Section will present the limitation of this research, our recommendation and conclusion. It is worth noting that this paper, being academic in nature, does not present advice, comment, or analysis for investment decisions.

II. DISTINCTIVE AREAS OF STRUCTURE AND TRADING MECHANICS

ETFs are account structures, not investment strategies. These structures are operational engines to be used by investment companies to create and manage many different types of index funds, using a multitude of investment styles and strategies. Notably, it is the index strategy that each ETF follows and not the ETF structure that leads to a good or bad return (Ferri, 2008).

Generally, MyETF is different from its conventional counterpart in terms of investment scope and Sharī'ah governance structure, as

6 Javelin Investment Management has filed with the Securities and Exchange Commission to have the first US ETF based on an Islamic index, the Javelin Exchange Traded Shares DJIM International Index Fund. It will be the second to track a Dow Jones index, after the DJIM International Titans 100 Index (Islamic Finance News, December 12, 2008).

shown in Diagrams 1 and 2. An Islamic ETF tracks a benchmark index comprised wholly of constituent securities that are Shari'ah-compliant, whereas a conventional ETF may track any benchmark index regardless of the Shari'ah status of its constituents. (Hwang DBS Vickers Research, 2008).

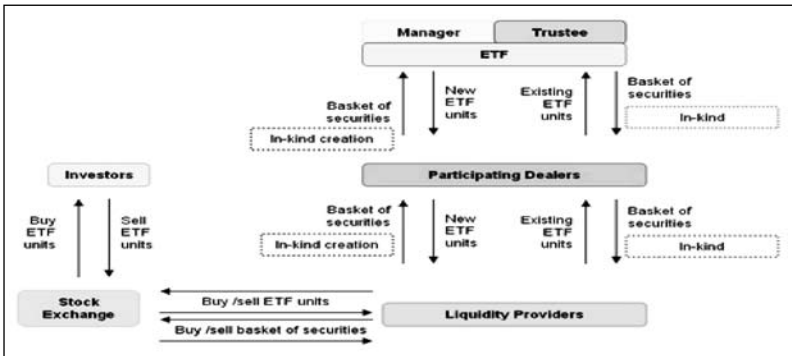


Diagram 1: FBM 30ETF (Source: FBM 30ETF Prospectus)

Unlike FBM30 ETF, in MyETF there is a distinctive need for regular screening, reviews and audits by the Shari'ah adviser/committee in consonance with Shari'ah principles, guidelines by DJIM, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the SC. For Dow Jones Indexes Shari'ah screening goes further into the financial health of listed companies; there are three financial ratios, which have been also accepted by AAOIFI, namely, debt to market capitalisation (one-third), cash- and interest-bearing securities to market capitalisation (one-third) and account receivables to total assets (less than 45%).⁷

7 For further academic illustration on Shari'ah stock screening, see Khatkhatay, M.H., and Nisar, S. (2006).

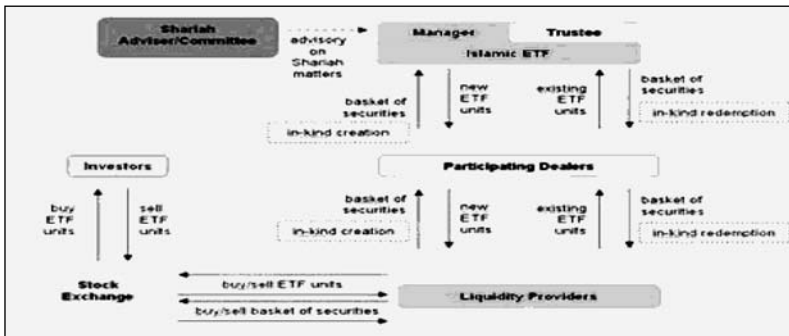


Diagram 2: MyETF-DJIM25 (Source: MyETF-DJIM25 Prospectus)

In addition, MyETF contains a Sharī'ah Adviser's Report to the unitholders, which seeks to affirm that the procedures and investment processes employed by *i*-VCAP are in accordance with the Sharī'ah principles and the applicable guidelines, rulings or decisions issued by the SC pertaining to Sharī'ah matters. The Report is also a confirmation that the investment portfolio comprises Sharī'ah-compliant securities.

Based on the Prospectus of MyETF, any income or distribution received by the fund from its investment portfolio which relates to interest income or income from “fortuitous” activities of the underlying companies is considered non-Sharī'ah income. This non-Sharī'ah income is subject to an income purification process as determined by the Sharī'ah Adviser from time to time and without limitation.

While there are usually no seeders in a conventional ETF, the Government Linked Investment Companies (GLICs)⁸ played the role of seeders (840 million units) and investors in MyETF, thus making the size of the fund bigger and less volatile than FBM30 ETF. According to *i*-VCap's CEO, Zainal Izlan, in an interview with ISRA in April 2009⁹, the primary reason for the GLICs' participation was the government's effort to reduce part of GLICs' holding in some of these shares. The role of GLICs in MyETF was twofold, first, to

8 The seven companies are Khazanah Nasional Berhad, Kumpulan Wang Persaraan, Kumpulan Wang Simpanan Pekerja, Lembaga Tabung Angkatan Tentera, Lembaga Tabung Haji, Permodalan Nasional Berhad and Valuecap Sdn. Bhd.

9 For the entire interview, see Mokhtar, S. (2009), pp. 8-9).

facilitate the creation and increase the size of the fund, and second, to reduce the market disturbance during the subscription. This has made a major difference in terms of size of funds between MyETF and FBM30 ETF.

III. SELECTED ISSUES AND CURRENT DEVELOPMENT OF ISLAMIC ETFS

According to Ferri (2008), some companies are trying to send a message to investors that their custom index ETFs will generate significantly higher returns than traditional index funds that follow common market indexes. This is not necessarily true; hence claims of higher returns from ETFs are grossly exaggerated.¹⁰

It has been emphasized that investors of Islamic ETFs do not have access to the variety of investment vehicles because of the restriction and lack of product sponsors as the ETF market is still in the embryonic stage. As the first Islamic ETF in Malaysia is just the beginning and the tip of the iceberg, it is expected that a variety of ETFs such as sector ETFs over Islamic indices and other asset classes will be further explored. To ensure growth, there should be a level playing field for Islamic ETFs compared to conventional ones with the possible removal of tax deficiencies and certain regulatory impediments, if any (Siddiqui in Bakar, 2008).

The Islamic ETF market in Asia is developing slowly due to several issues, including regulation and trading practices, especially at this current steep learning curve, according to Hoff in Bakar (2008). As the Islamic ETF is a new asset class, it needs investor education to fuel growth, as alluded to by Izlan in Bakar (2008).

There are risk factors specific to the fund, namely, no cash redemption from the fund, no prior trading market in the units, minimum creation and redemption size, lack of operational history and Shari'ah non-compliance risk, among others. In the case of non-compliant securities, investors generally may hold on until the original investment cost is recovered prior to its disposal (Prospectus on My-ETF, 2008).

10 See note 3.

While borrowing of securities at interest may be done in a conventional ETF, it is controversial in the case of an Islamic ETF. An innovation in the pipeline by Bursa Malaysia is the Shari'ah-compliant alternative to Securities Borrowing and Lending, using the *wa'd* (unilateral promises) structure to support the creation and redemption of Islamic ETFs, which ensures real transfer of stock ownership of permitted Shari'ah-compliant stocks. This structure provides a complete end-to-end Shari'ah solution for financial institutions to develop and offer Islamic ETFs to global investors (Bursa Malaysia, 2008).

In May 2009, Bursa Malaysia launched a market making framework for ETFs and structured warrants to boost trading on the local stock market. This will give discounts on clearing fees for ETF market makers until 31st December 2012, while a new class of equity derivatives in the form of put warrants can be launched under the new measures. According to Bursa Malaysia CEO Yusli Mohamed Yusoff, "through market making, the time-to-market for listing of structured warrants from the date of the term sheet could be reduced from the conventional 10 market days to as soon as one market day" (Business Times, 2009, May 12).

IV. COMPARATIVE PERFORMANCE STUDY OF MYETF DJIM AND FBM30ETF

A. Data and method employed

In conducting this study, we have obtained the prospectus and the annual reports of the two ETFs. We have also managed to get their daily prices quoted on the Bursa as well as the two benchmark indices and the proxy for interest-free rate (3-month KLIBOR). In fact, some measures were taken directly from the annual reports, in particular, the MER (Management Expense Ratio), the PTR (Portfolio Turnover Ratio), and the values of the NAV (Net Asset Value). These measures and their computations are shown in Table 1.

Table 1: NAV, MER, PTR of ETFs

	MyETF-DJIM 25		FBM 30ETF	
	31/12/2008	21/01/2008	31/12/2008	31/12/2007
Net assets (RM)	482,712,668	840,107,213	3,748,000	22,020,000
Units in circulation	831,000,000	853,000,000	650,000	2,340,000
NAV (RM)	0.5809	1	5.7668	9.4103
Total return based on NAV (%)	-41.9	-	-37.2	7.68
Total return based on price (%)	-39	-	-36	-
MER (%)	0.51	-	1.06	1.21
PTR (times)	0.2	-	1.69	1.48

MER measures the cost effectiveness of the fund; it is derived as follows:

$$MER = \frac{A + B + C + D + E}{F} \times 100$$

Where:

A = Management fee

B = Trustee's fee

C = Auditors' remuneration

D = Tax agent's fee

E = Administrative expenses

F = Average net asset value of the fund calculated on daily basis.

As for PTR, it is derived based on the following calculation:

$$PTR = \frac{(TA + TD) \div 2}{F}$$

Where:

TA = Total acquisition for the financial period

TD = Total disposal for the financial period

F = Average net asset value of the fund calculated on daily basis.

Similarly, the NAV = $\frac{\text{Market value of assets} - \text{liabilities}}{\text{Shares outstanding}}$

In addition to these measures, we have calculated other measures which are usually considered for performance evaluation of funds. These are the Sharpe ratio, Treynor and Jensen measures. The computations of these risk-adjusted performance measures as well as the results are shown in Table 2. To compute these measures, we made our own calculations based on the daily prices. Thus, we have:

$$\bar{r}_p = \frac{P_t - P_{t-1}}{P_{t-1}} \times 100$$

where P_t and P_{t-1} are respectively the prices on day t and the day before.

Table 2: Risk-adjusted performance measures and results

	Islamic		Conventional	
	My ETF-JIM25	Benchmark	FBM 30ETF	Benchmark
Average daily return (%)	-0.2	-0.3	-0.19	-0.21
Standard deviation	2.32	1.91	1.64	1.43
Beta	0.67	1	0.84	1
Correlation coef.	0.6	0.6	0.75	0.75
Sharpe's measure	-1.65	-2.05	-2.33	-2.67
Treynor's measure	-5.7	-3.92	-4.54	-3.83
Jensen's measure	-1.18	-	-0.6	-
Average daily volume	5,233	95043991	142	NA
Average geometric annual return (%)	-32.46	-44.51	-33.56	-36.36
HPR 1 st quarter (%)	-8.42	-10.49	-7.49	-9.83
HPR 2 nd quarter	-3.41	-0.25	-5.18*	-7.37
HPR 3 rd quarter	-23.81	-27.12	-16.15	-13.15
HPR 4 th quarter	-4.69	-14.11	-9.91*	-14.29

$$\text{Sharpe ratio} = \frac{\bar{r}_p - \bar{r}_f}{\sigma_p}$$

$$\text{Treynor's measure} = \frac{\bar{r}_p - \bar{r}_f}{\beta_p}$$

$$\text{Jensen measure } \alpha_p = \bar{r}_p - [\bar{r}_p + \beta_p(\bar{r}_M - \bar{r}_f)]$$

Where \bar{r}_p , \bar{r}_f , and \bar{r}_M are respectively the average portfolio return, the risk free rate (3-month KLIBOR) and the market return, while σ_p , β_p are the standard deviation (which measures the total risk) and the beta (the systematic risk) of the portfolio.

We also regressed each of the excess return of each of the two ETFs on the excess return of the corresponding benchmark to obtain σ_p and β_p . The method is based on the Jensen (1968) model. Hence, the modified version of the Jensen model is as follows:

$$PER_t = \alpha + \beta MER_t + \mu_t$$

where PER_t and MER_t are respectively the portfolio excess return and the market excess return, α and β are the parameters to be estimated, and μ_t is the error term.

According to Harper, Madura and Schnusenberg (2006), another measure used is tracking error (TE) of ETF to the index. The TE is the difference between the respective index return and the corresponding ETF return, which can be computed as:

$$TE = R_p - R_m$$

where R_p is the return on the ETF and R_m is the return on the corresponding index.

The period considered in our study starts from 31st January 2008 to 31st December 2008. After several adjustments, we have retained a sample of the following:

- (i) 199 observations (daily return) for MyETF-DJIM 25 and its corresponding benchmark.
- (ii) 215 observations for FBM 30ETF and its corresponding benchmark.

The regression was carried out using the software SAS, and the results are shown in Tables 3 and 4. All the results are statistically significant at 1%.

Table 3
The results of the regression of the excess return of MyETF-DJIM25 on that of the benchmark - the Dow Jones Islamic Market Malaysia Titans 25 Index

Number of Observations Read	199				
Number of Observations Used	199				
Analysis of Variance					
Sum of Mean					
Source	DF	Squares	Square	F Value	Pr > F
Model	1	331.89542	331.89542	106.36	<.0001
Error	197	614.70796	3.12034		
Corrected Total	198	946.60339			
Root MSE	1.76645	R-Square	0.3506		
Dependent Mean	-3.81126	Adj R-Sq	0.3473		
Coeff Var	-46.34823				
Parameter Estimates					
Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	-1.17887	0.28430	-4.15	<.0001
MER	1	0.67145	0.06511	10.31	<.0001

Table 4
The results of the regression of the excess return of FBM 30ETF on that of the benchmark, FTSE Bursa Malaysia Large 30 Index

Number of Observations Read	215				
Number of Observations Used	215				
Analysis of Variance					
Sum of Mean					
Source	DF	Squares	Square	F Value	Pr > F
Model	1	316.67748	316.67748	259.60	<.0001
Error	213	259.83421	1.21988		
Corrected Total	214	576.51169			
Root MSE	1.10448	R-Square	0.5493		
Dependent Mean	-3.81023	Adj R-Sq	0.5472		
Coeff Var	-28.98724				
Parameter Estimates					
Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	1	-0.60468	0.21274	-2.84	0.0049
MER	1	0.83793	0.05201	16.11	<.0001

B. Comparison of the performance and analysis

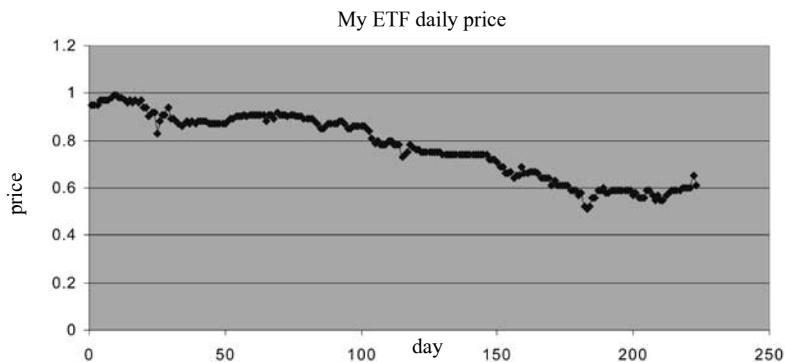
Given that ETFs are particular types of mutual funds and their objective is to track the performance of a particular index, the comparison was conducted in two phases. In the first phase, the performance of the ETFs was evaluated with respect to their index. In the second phase, comparison was made between the performances of the two ETFs.

The period from January to December 2008 was considered as a whole taking into account the declining overall markets as attested by the Kuala Lumpur Composite Index (KLCI) which plunged from 1500 to 876. Over the 12 months, the KLCI recorded positive returns only in April and December.

1. First phase of comparison: performance of the ETFs and their respective indexes

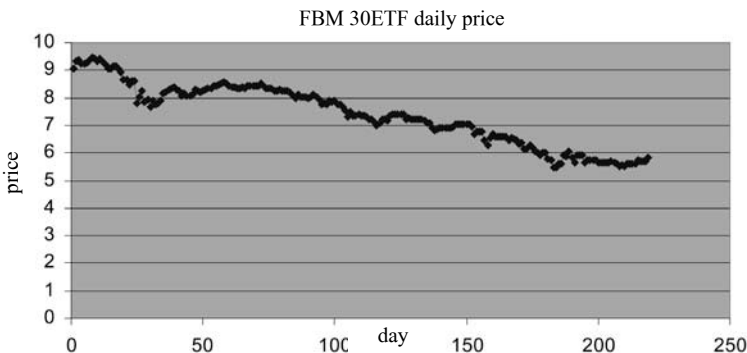
The objective of the MyETF manager outlined in the Prospectus is to provide investment results that closely correspond to the performance of the benchmark, regardless of its performance. The manager should attempt to achieve an absolute value of tracking error of less than 3% between the NAV of the fund and the benchmark index. Ideally, the TE should be zero if the ETF perfectly mirrors the underlying index. The TE of MyETF to DJIM 25 as at 31st December 2008 is 1.45%, which is well within the 3% limit. Thus, MyETF is highly correlated with its index.

Chart 1 (source: My ETF prospectus)



The average daily return for MyETF in its first year was down by 0.2% but the index dropped by 0.3% (Chart 1). It shows that, on average, the ETF plummeted slightly less relative to the index due to portfolio rebalancing. The absolute returns for both MyETF and its index were negative given the global market condition. The higher standard deviation of MyETF (2.32) as opposed to the benchmark index (1.91) indicates that MyETF has more exposure to total risk. The systematic risk measured by beta is lower in MyETF compared to its index, demonstrating that most of MyETF’s risk was diversified. As a whole, 35% of MyETF returns are explained by the benchmark. In addition, MER is positively related to PER as indicated by its parameter estimates of $PER_t = - 1.17887 + 0.67145MER_t + \mu_t$ whereby one unit of increase in MER will result in 0.67 units of increase in PER (Table 3).

Chart 2 (source: FBM30 ETF prospectus)



As for FBM 30 ETF, the objective of the fund is to achieve a price and yield performance, before fees, expenses and tax, which is generally similar to the benchmark index, balanced with the need to facilitate liquidity provision. Over time, the manager of FBM 30ETF aims to achieve performance with a correlation of 95% or better between the fund’s portfolio NAV and the benchmark index. However, based on our computation, the correlation coefficient between FBM 30ETF and its benchmark is 0.75 (75%) which indicates that the funds had failed to attain their stated objective. Explanation from the management is therefore warranted, particularly if such failure was due to the implementation of management strategies.

The decrease of average daily return of FBM30 ETF is slightly less than its benchmark index, 0.19% as opposed to 0.21% (Chart 2). The absolute return for FBM 30ETF was negative in tandem with the global market situation. The standard deviation of FBM 30ETF (1.64) with the FBM30 index (1.43) implies that FBM 30ETF is more volatile than its benchmark. A greater part of FBM 30ETF's risk is unsystematic, which is indicated by the low beta. The benchmark explains 55% of the variability of FBM 30ETF returns. The equation of $PER_t = -0.60468 + 0.83793MER_t + \mu_t$ in Table 4 shows that one unit of increase in MER will result in 0.83 units of increase in PER, which in turn signifies a stronger relationship compared to the MyETF returns equation (Table 3).

2. Second phase of comparison: performance of MyETF-DJIM 25 vs. FBM 30ETF

The comparison between the performances of MyETF and FBM 30ETF will be in absolute terms due to the absence of a common index reference. At the outset, we note that MyETF is larger than FBM 30ETF with a net asset of at least 128 times more. This difference in size is visible through the discrepancy in the average daily trading volume, whereby we have 5,233 for the Islamic fund against 142 for the conventional. An explanation of this could be that MyETF is supported by a constellation of seven government-linked investment companies with a national investment agenda.

In totality, the performances of the two funds are lacklustre and similar, with FBM performing somewhat better. Given the negative signs of all the performance measures, the average daily return and the annual returns based on the NAV and quoted prices of FBM 30ETF are still superior to MyETF (Tables 1 and 2).

By virtue of the financial downturn, it seems that the risk-adjusted measures (Sharpe, Treynor, and Jensen) are irrelevant. The reason for such a stance is that these measures are employed to determine the reward per unit of risk during normal periods where returns are positive. They are positively related to the performance of the fund. As both Sharpe and Treynor measures relate average excess return to risk, the higher ratio connotes better performance or less volatility. In fact, market efficiency theory indicates that the Jensen alpha should

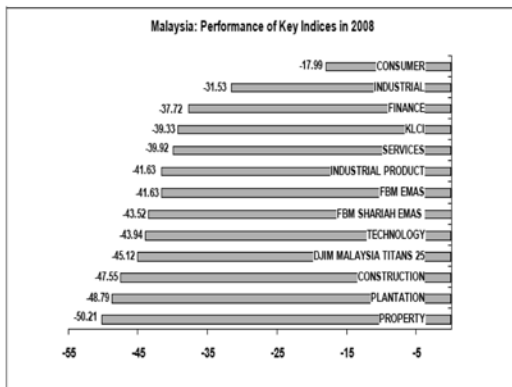
be zero or negative over an extended time period (Harper, Madura & Schnusenberg, 2006). Our analysis found that both ETFs have negative Jensen’s measure.

However, these measures may lead to some forms of aberration. The two funds have almost the same average daily return: - 0.20% (MyETF) and - 0.19% (FBM 30ETF). Notwithstanding that MyETF is better diversified with a lower beta (0.67 against 0.84 for FBM30 ETF in Tables 2, 3 and 4), it is bizarre that the funds’ investors would be worse off according to Treynor’s measure whereby the figures are - 5.7 and - 4.54 for MyETF and FBM30 ETF respectively.

Another abnormality is with respect to Jensen’s measure, whereby the daily negative abnormal returns for MyETF and FBM 30ETF are - 118% and - 60% respectively (Tables 2, 3 and 4). Therefore, we may surmise that these risk-adjusted measures may not be reliable when the excess returns are negative. Despite the lower MER for MyETF (0.51% against 1.06% for FBM 30ETF), such economies of scale (lower cost and higher trading volume) were not translated into better returns as one may reasonably expect.

Since a Sharī’ah investment portfolio generally does not have exposure in conventional financial institutions and highly leveraged businesses which were adversely affected during the global financial crisis, Islamic ETFs should have performed better than their conventional counterparts. However, our finding poses an exceptional case with bearings on the local performance.

Chart 3 (source: MyETF annual report 2008)



A possible justification for the underperformance of MyETF in relation to FBM 30ETF despite the former's edge may be identified in its portfolio composition, which excluded the finance sector that was among the least-affected relatively during 2008 (- 37.72% as shown in Chart 3). This was aggravated by the allocation of more than 20% of the MyETF portfolio in the plantation sector which recorded the second-worst results in terms of performance (- 48.79% as shown in Chart 3). As for FBM 30ETF, 25% of its portfolio was invested in the finance sector and less than 7% in the plantation sector. As of May 2009, the asset value of MyETF has fallen to USD160 million (RM560 million) in line with the stock market slump (Business Times, 2009, May 25).

V. CONCLUSION

ETFs, as equity investment schemes, were not spared during the turbulent year of 2008 which precipitated pessimistic outlooks for investors. Notwithstanding the success to outperform their respective benchmarks, the two ETFs, had on the whole, similar negative performance, with a sharp decline in prices and NAV.

Although this study was constrained by limited data to compute the b-a spread, the large trading volume of MyETF may imply high degree of liquidity in its benchmark market. Sharpe (1992) used more data (five years) and a larger series of indices than our sample as both ETFs are at their infant stage. With certain one-time market events like the global financial crisis, one year's less-than-stellar performance will not be an accurate reflection of the fund's performance. That said, past performance is no guarantee of the future achievements of any particular fund (Securities Industry Development Corporation, 2009, June 1).

Nonetheless, a few points need to be highlighted. Generally, ETFs adopt a passive strategy under the assumption of efficient markets. The question arises as to whether the Malaysian financial market is efficient or otherwise. In this regard, Lim, Brooks & Kim (2007) found, in a study which expands from 1992 to 2005 on eight Asian countries, that Malaysia is the least efficient of the group.

Furthermore, the passive strategy is also questionable during bearish periods since the strategy restricts itself in shifting from risky investments to safer ones. Such an approach may or may not necessarily contradict reasonable rationality and value investing as actively managed funds do not consistently outperform market indices over the long horizon.

Moving forward, given more data, this research may be extensive if measurement can be obtained with regard to the speed of ETF prices' reaction to changes in underlying stocks. Laurent Deville (2006) highlighted that new types of ETFs, such as the recent commodity ETFs, are launched on a regular basis and a study has yet to examine their specificities, trading or uses for fixed-income ETFs and ETF derivatives.

Since only 60% of actively managed Shari'ah unit trust funds have outperformed the Shari'ah index tracked by MyETF between 2006 and 2008, it would be informative to conduct further research on the performance of ETFs vis-^{al-}vis-^{al-}vis actively managed funds, particularly when more Islamic ETFs are introduced in the near future. A global comparative study of the existing Islamic ETFs (approximately 10 ETFs) in different jurisdictions may spur greater room for competitive benchmarking and improvement in the Islamic fund management industry against its much larger conventional counterparts (around 1,600 ETFs). (Business Times, 2009, May 25).

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