International Journal of Research in Social Sciences
Vol. 6 Issue 10, October 2016,
ISSN: 2249-2496 Impact Factor: 6.278
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage as well as in Cabell's Directories of Publishing Opportunities, U.S.A

OVERVIEW OF CONVENTIONAL AND SHARI'AH MUTUAL FUNDS: A LITERATURE REVIEW

MUSTAFA HUSSAIN KHAN*
HAFIZ MAJDI AB. RASHID**

Abstract

The purpose of this paper is to review the literature on conventional mutual funds as well as Shari'ah mutual funds along with their distinguished features. Similar to conventional mutual funds, Shari'ah mutual fund industry has witnessed phenomenal growth in terms of size, products and sophistication. Irrespective of religion, faith, belief, it provides opportunity to all small to middle income investors to channel their funds into Shari'ah complaint investment portfolios because it falls under the category of ethical or socially responsible investment which are definite spirit of Islamic finance. The paper reviews existing literature on conventional mutual funds and Shari'ah compliant mutual funds and takes comparative approach in comparing and contrasting two markets. This paper finds that there is a growing interest in Shari'ah compliant mutual funds not only in Malaysia. Middle east, but also in USA, UK, Luxembourg, and Singapore. This evidences that Shari'ah compliant mutual funds can be introduced and extend its practices to all countries where Islamic finance is trying to make its market base. This paper is exploratory and conceptual in nature but may have some relevance for researchers and interested parties to dwell in the topic. The paper suggests empirical studies to examine the performance of different types of Shari'ah mutual funds in comparison with its counterparts.

Keywords:Mutual funds,Shari'ah Mutual funds,Investment,Ethics

* **Master's candidate at International Islamic University Malaysia, Institute of Islamic Banking and Finance.**

** **Associate Professor at the Department of Accounting,Faculty of Economics & Management Sciences, International Islamic University Malaysia.**

1. Introduction

Fund management has grown as one of the most significant sectors of Capital market. It has attracted attention of retail investors globally. Among various forms of fund management, mutual fund industry has seen momentous growth since its emergence in the 17th century. The growth of the industry has been consistently upward. Currently, mutual fund's assets increased to USD 38.27 trillion at the end of the second quarter of 2015, (Investment Company Institute (ICI)). The major contributions are received from the Americas accounting for 53% followed by the Europe 35%. The mutual fund industry is driven by improved infrastructure, robust and comprehensive industry, broader customer and marketing base and transparency in the business.

The appealing factor of mutual funds which led retail investors to prefer it over other investment avenues, is that the small to medium income investors pool their savings in a portfolio which is later invested in diversified investment avenues. Mutual funds not only ensure security to capital but they provide high risk-adjusted returns accordingly. Further, the wealth accumulation factor appeals investors to opt for mutual funds over bank deposits which ultimately impacts directly on economic growth and development.

Alternatively, Shari'ah compliant mutual fund or unit trust has been successfully providing similar opportunities as conventional mutual funds. The financial crisis of 2007-08 witnessed that Islamic funds including Shari'ah mutual funds or Islamic unit trusts outperformed their counterparts. The nature of Shari'ah mutual funds does not allow any form of speculation, monopoly, uncertainty or ambiguity. Along with common advantages and benefits, Shari'ah mutual funds ensure transparency, disclosure and fairness in the market and practices

The concept of fund management though started as a nascent sector in the form of waqf management. Later, it grew in a well-developed sector of Shari'ah compliant financial system. Shari'ah mutual funds Pioneered in Malaysia and extended its market to other countries such as Middle east, United Kingdome, United States of America, Luxembourg, Hong Kong and Singapore.

Despite the encouraging development, the potential of the Shari'ah mutual funds is yet to be realised. More needs to be done to enhance mutual fund industry to expand its market base in other countries such as India, Canada, Indonesia and other countries where these funds could make its space in form of ethical or socially responsible investment.

Therefore, this paper aims to review the literature of mutual funds comparing with Shari'ah mutual funds. Further, it aims at providing insights of both systems with their features that distinguish one from other. This paper is conceptual in nature but may have some relevance for researchers and interested parties to dwell in the topic. The structure of the papers is as follows: The following section gives the introduction to mutual funds and its concepts followed by the categories and global trends of mutual funds. Further, the third section introduces Shari'ah mutual funds and compares it with conventional mutual funds in addition to their categories and global trends. Finally, the conclusion will be provided in last section.

2. Introduction to Mutual Funds

2.1 Definitions of Mutual Funds

The term mutual fund is defined as an investment scheme that pools funds from investors who share similar financial objectives, investment strategy and risk tolerance. The pooled funds will then be invested in a diversified portfolio of various financial instruments by a professionally managed organisation (Krichene N., 2012; Islamic Capital Markets: Principles and Practices, 2015).

Mutual funds are defined by the American Investment Company Act of 1940 under management companies and further divided into open-end fund and closed-end fund. There is a structural difference between open-end and closed-end funds. The open-end company is tantamount to mutual funds that offers shares continuously and redeem at their net asset value. The net asset value is determined every day by dividing the portfolio's value by the number of shares. However, closed-end funds do not offer shares on continuous basis. Similarly, they are not obliged to redeem shares (Baumol, W, et al., 2012, Khorana, 2005).

The Securities and Exchange Board of India known as SEBI in its 1996 regulations defines mutual funds as, "a fund established in the form of trust to raise money through the sale of units to the public or a section of public under one or more schemes for investing in securities including money market instruments" (SEBI (Mutual Funds) Regulations, 1996 p., 8, Khan M. Y., 2009).

Mutual funds are established in the form of trust sponsored by banks, financial companies, and industries with an objective of mobilising savings by introducing schemes and investing them in the various instruments available in the capital and money markets.

The Securities Commission of Malaysia defined unit trust as a collective investment scheme that, "provides facilities for individuals to participate in or receive profits or income arising from the acquisition, holding, management or disposal of securities, or any other property or sums paid out of such profits or income. In such schemes, participants do not have day-to-day control over the management of the scheme's assets" .

The mutual fund or unit trust falls under the collective investment scheme. The world of collective investments is very vast and consist of different types of funds. Mutual funds are pooled investments made by many investors in a common legal vehicle to invest in securities including stocks, bonds, and other commercial papers. This type of fund is managed by a professional manager. Further, the objectives are clearly mentioned in its prospectus .

A unit trust differs from mutual fund in terms of having trust over the fund company. Investors are beneficiaries of the trust whose trustee engages professional management, thus, trust may be independent or declared over the fund company. Unlike mutual funds, a unit trust has more avenues available for investment as its funds can be invested in real estate or other assets that are not securities (Krichene, 2012).

Mutual funds are considered an important institution in the capital markets. They play a similar role to banks in terms of channelling the funds and investing in stocks, bonds and other financial instruments. Contrary to commercial banks, they do not hold deposits or saving accounts. Similarly, they do not engage in lending activities, nor create and destroy money through the credit multiplier process. Mutual funds are risk sharing vehicles exposed to market and credit risk (Bacha and Mirakhor, 2013; Krichene, 2012).

Mutual funds contribute to capital formation and economic growth. Contrary to banks, mutual funds do not have an asset-liability mismatch. They are highly regulated by the securities commission. Government and corporations enjoy their resources in equity and debt from mutual funds (Khan M. Y., 2009).

Having defined the mutual fund, its specific features are objective of the fund and investment, diversification of investment, professional management of the fund, investment area or portfolio, and authorised investment (Sundar, 2007).

2.2 Types of Mutual Funds

The mutual fund industry has witnessed remarkable diversity in terms of its innovative funds and schemes. According to Investment Company Institute, global number of mutual funds at the end of 2014 reached 79,669. The Americas including United States and other countries contribute 22,962 funds, while European countries offer 35,163 mutual funds .

2.2.1 Open-end Funds

Open-end mutual fund is the most common fund globally. It means that a fund company issues new shares to an investor based on the current net asset value and redeem shares when investors decide to sell. The selling and buying back process takes place daily. Mostly shares are sold to the public every business day. A professional investment manager manages the fund portfolio and invests in different types of securities. There is no legal limit on the issuance of shares (Krichene N., 2012).

2.2.2 Closed-end Funds

Contrary to open-end fund, closed-end funds issue a fixed number of shares to the public at one time. Shares are listed for trading in the stock exchange. Investors who decide to sell their shares can benefit by selling in the stock exchange at a premium or discount based on market performance. This type of portfolio is managed by a professional fund manager (Krichene, N, 2012).

Another means of categorisation is by portfolio of investment and objective of the portfolio created for the investment. Every fund regardless of type has its pre-determined investment objectives that determine the fund's assets, region of investments, and investment strategies. There are three varieties of mutual funds:

- Equity Funds
- Fixed Income Funds
- Money Market Funds

All types of mutual funds are variations of these three asset classes. Further, funds and their types vary from country to country according to the regulations and law of the particular country (Islamic Equity Market, Securities Commission Malaysia 2009). However, basic variations can be seen in the following table in addition to their objectives and investment avenues:

Table 2.1

Overview of Mutual Funds: Types and Variations

Types of Funds	**Objectives**	**Invested Structure/Fund**
Money Market Funds	To invest in money market	Short-term money market instrument such as treasury bills and commercial papers
Fixed Income Funds	To give returns on a steady basis	Government and corporate debt, stocks and bonds
Balanced Funds	To provide mixed return through equity and fixed income fund	Invest in both equity and bonds
Index Funds	To replicate the performance of a broad market index	Market index (invest in shares in order to replicate the performance of a given index)
Equity Funds	To provide returns generated from listed and unlisted shares	Listed and unlisted shares

Investment-Linked Funds	To provide balanced income for specific life insurance	Stocks and bonds

Source: Securities Commission Malaysia, 2009.

2.3 Mutual Fund: A Brief History

The history of mutual funds can be traced back to the 18th century in European countries. Goetzmann and Rouwenhorst (2005), claim that the concept of mutual fund in various forms of trust existed in the 17th century. However, the development and regulation of the mutual fund industry were seen in the 19th century.

The first mutual fund was offered in the form of closed-end investment trust in the last quarter of the 19th century. In 1924, the first open-end fund was created in Boston. According to Fernando et al. (2003), since the inception of the industry until 1970, the growth was relatively slow. However, in the 1970s a money market mutual fund was launched in the United States followed by other countries such as Greece, France, and Japan. In the 1990s, the mutual fund industry boomed and reached the USD 1 trillion mark. Since then, the industry has been growing tremendously.

Unit trusts in the United Kingdom operate under the Financial Services Act (FSA) 1986, and the operations are administered by the Securities and Investment Board (SIB). The open-end funds are defined as unit trusts while closed-end funds are termed investment trusts. Japan has shown spectacular growth of mutual funds. The mutual funds industry in Japan dates back to 1937. In 1941, the investment trust model was prepared and set up under the Securities Investment law, 1951 (Sadhak, 1997).

The reason behind highlighting three countries among others is that these countries (USA, UK, and Japan), have different formats of the mutual fund industry, though the concept of "providing maximum possible returns with minimum risks" remains the same (Sadhak, 1997).

2.3.1 Mutual Fund's Contribution in the Global Economy

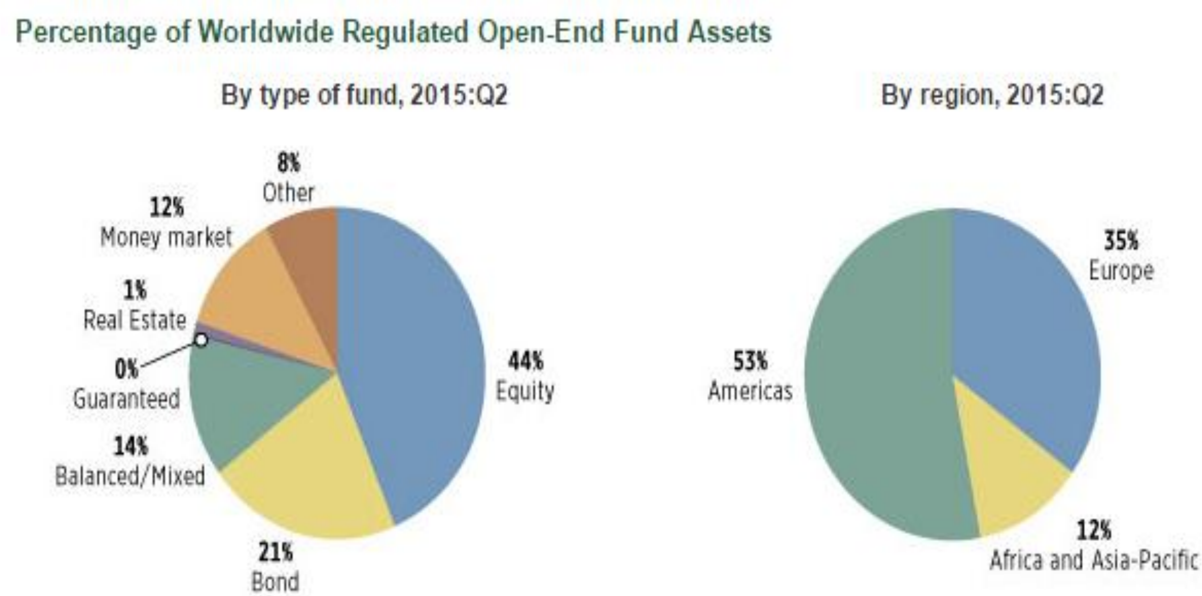
According to Fernando et al. (2003), the total assets for 40 countries amounted to over USD 9 trillion in 1998. The US market covers 60% of the total worldwide assets, whereas the European

Union contribute nearly 30%. Other countries such as Japan and East Asian countries represent 6%. All developing countries contribute less than 4% of the total asset in 2003.

According to the Investment Company Institute (ICI), global regulated open-end fund assets increased to USD 38.27 trillion at the end of the second quarter of 2015. The following chart illustrates the share of different type of funds and the contribution by different regions.

Figure 2.2

Worldwide Regulated Open-End Fund Assets and Flows



Source: Worldwide Regulated Open-End Fund Assets and Flows Second Quarter 2015, Investment Company Institute (ICI).

On the left side, the dominating ratio of open-end funds comes from equity funds including mutual funds. In terms of region, the largest contribution is made by the Americas followed by Europe with 35%.

3.0 Introduction to Shari'ah Mutual Funds

A Sharī'ah mutual fund can be defined as a collective investment scheme that pools funds from investors who share the same financial objectives in a trust fund managed by professional investment managers. These funds are invested in a diversified portfolio of Sharī'ah compliant financial instruments such as stocks, sukuk, Islamic REITs, and Islamic money market instruments (Islamic Capital Markets Principles and Practices, 2015; Omar A. et al., 2013; Bacha and Mirakhor, 2013).

The Islamic Financial Services Boards (IFSB) mentions the criteria for any financial scheme to fall under Islamic collective investment scheme (ICIS). The criteria are as follows :

1. Investors have pooled their capital contributions in a fund (whether that fund is in a separate legal entity, or is held pursuant to a contractual arrangement) by subscribing to units or shares of equal value. Such units or shares constitute, in effect, claims of ownership to the undivided assets of the fund (which can consist of financial or non-financial assets), and give rise to the right or obligation to share in the profits or losses derived from those assets.
2. The fund is established and managed in accordance with Sharī'ah rules and principles.
3. Whether or not the ICIS is managed by the institutions that established or sponsored it, it is separately financially accountable from those institutions (i.e. has its own asset-and-liabilities profile).

The Accounting and Auditing of Islamic Financial Institutions (AAOIFI) defines Islamic mutual funds as, "investment vehicle that are financial independent of the institutions that establish them. Funds take the form of equal participating shares/units which represent the shareholders'/unit holder's share of the assets and entitlement of profits and losses" .

AAOIFI further elaborates, "because funds are a form of collective investment that continue throughout their term, the rights and duties of participations are defined and restricted by the common interest since they relate to third party's right. Hence, in cases where the fund is managed on the basis of agency, the shareholders/unit holders waive their right to management redemption or liquidation except in accordance with the limitation and conditions set out in the status and by-laws" .

Similar to conventional mutual funds, Islamic mutual funds have the same characteristics and advantages such as diversification, professional management of funds, low liquidity risk, and transparency in pricing and range of products available to meet investor's risk profile (Bacha et al., 2013).

3.1 Differences between Islamic and Conventional Mutual Funds

Sharī'ah mutual funds or Islamic unit trust funds are approved globally as acceptable Islamic investment products. The basic economic objectives in both types of funds are the inclusion of investors from each class of the population, protecting capital through just and sound regulatory framework, and optimising returns (Kamso N., 2013). Despite the common characteristics and objectives there are key differences between both types of fund.

3.1.1 Sharī'ah Compliant Investment

The process of pooling funds and investing avenues must be Sharī'ah compliant. Islamic funds are not allowed to invest in such securities and assets that are considered non-Sharī'ah compliant. Further, funds must comply with the law of jurisdiction applicable in a particular fund's country. Thus, the basic requirement is to set up the fund that complies with Sharī'ah and common law. Meanwhile, the pooled funds must be invested in such businesses that meet both requirements as mentioned above (Islamic Capital Markets Principles and Practice, 2015).

3.1.2 Sharī'ah Advisory

The Sharī'ah advisors play a central role in monitoring the whole fund's activities such as fund's operations and administration. The main attribute of the Islamic mutual funds is they have to undergo a stringent screening process set up by Sharī'ah scholars or indices. Further, the validity of funds is subject to the condition that instead of fixed return tied up with their face value, they must carry a pro-rata actually earned by the funds (Wilson, R., 2001; Schoon N., 2011).

In other words, neither the principle nor a rate of profit (tied up with principal) can be guaranteed. In the case the fund earns huge profits, the return on subscription of investors will increase to that proportion. However, if the fund suffers a loss, investors have to share it accordingly. The fund management is liable for losses if they are caused by their negligence or mismanagement .

Stock screening process is crucial not only for stock indices but plays a very important role in terms of facilitating a huge investment avenue for pooled funds through Sharī'ah mutual funds. Similarly, the contracts involved in Sharī'ah mutual funds differentiate themselves from conventional mutual funds. Sharī'ah mutual funds are structured on the basis of Mudarabah, Musharakah, Wakalah, or hybrid contracts (Bacha and Mirakhor, 2013).

3.1.3 Purification

The other difference that can be noticed is purification of income generated from the fund. In the case when returns are derived from mixed stocks , the non-Sharī'ah compliant income must be purified by donating it to charitable institutions (Islamic Capital Markets Principles and Practice, 2015).

3.1.4 Management Fee Structure

As stated above, the relationship between fund manager and investor depends upon the contract involved in the particular fund. If the contract is based on Mudarabah, the fund manager acts as Mudharib, while unit holders act as partners (Musharik) for each other. However, the fund manager is entitled to get profits according to the agreed ratio. On the other hand, the fund manager may act as Wakeel (agent) on behalf of the unit holders. In this case, he is entitled to the agency fee deducted upfront before the investment of funds (Islamic Capital Markets Principles and Practice, 2015).

3.2 Types of Sharī'ah Mutual Funds

Sharī'ah mutual funds are similarly divided into open-end and closed-end funds. However, with regard to the investment portfolios it can be categorised into several types which are discussed in the following.

3.2.1 Equity Funds

This is the common and most popular in Malaysia and Indonesia. The pooled funds are invested in stocks or shares of listed companies. The performance of the units is tied up with the performance of the exchange. In other words, rising market leads to increase in the value of units and vice versa. The funds can be invested in securities of other countries. Usually, this type of fund is tied up with risk-return trade-off with various ranges and verities (Omar A. et al. 2013; Islamic Capital Markets Principles and Practice, 2015).

3.2.2 Commodity Funds

In this category, the funds are invested in commodities such as oil, gold, or livestock. They may invest in commodity futures and options. Similarly, other funds are invested in stock companies. For instance, gold fund may invest in gold-mining companies. The performance of the fund depends on the economic situation based on demand and supply. The fluctuation of the commodity prices ensures the profits and revenues to the investors. However, since the risk is involved in the commodity as the prices may fluctuate due to inflation, hedging instruments such as Islamic derivative instruments are used to hedge the involved risk. The basic requirement from the Sharīʼah perspective is the commodity must comply with Sharīʼah (Islamic Capital Markets Principles and Practice, 2015; Usmani, 2007).

3.2.3 Money Market Funds

Contrary to the conventional money market mutual funds, Sharīʼah mutual funds must invest in Islamic money market instruments such as short-term debentures and short-term money market instruments. This is the safest type of mutual funds as it ensures low risk with low returns. Hence, the risk of inflation still exists as it may outpace the profits generated from the funds. In order to comply with Sharīʼah specifications, the basic requirement is investments shall be in Sharīʼah compliant instruments (Islamic Capital Markets Principles and Practice, 2015).

3.2.4 Sukuk Funds

This is the alternative of conventional fixed income mutual funds. In this category, the funds are invested in diversified portfolio of sukuk. Ultimately, this ensures secured annual income to the unit holders in addition to the capital appreciation. Different types of sukuk can be considered for investment such as government, corporate, municipal, convertible sukuk, and socially responsible investment sukuk (SRI). Further they invest in debt securities such as asset-backed securities (ABS) (Islamic Capital Markets Principles and Practice, 2015; Omar A. et al., 2013).

3.2.4 Ijarah Funds

In this fund, the investments are pooled to purchase Sharīʼah compliant assets such as automobiles, agricultural machinery, factory machines or equipment. Subsequently, the assets will be leased to users and rental will be shared with unit holders. This concept is also applied in real estate investment trusts (Islamic REITs) (Usmani, 2007).

3.2.5 Murabahah Funds

This is based on purchasing Sharīʼah compliant assets and selling it to the desired users with the profit margin that is paid to the unit holders as per agreement. It is among the popular types of funds as it represents largest Islamic funds in the world (Usmani, 2007; Aroonpoolsup S., 2013).

3.2.6 Private Equity and Venture Capital Funds

The basic concept of the private equity and capital equity fund is to invest in equity stakes in business ventures. Funds are invested in the target companies or investee companies to enjoy higher returns and premium. Private equity funds invest in well-established and mature business, while capital funds invest in risker start-up business.

In terms of Islamic private equity and venture capital funds, the supervision expertise from Sharīʼah advisors is the basic requirement to ensure that the investment contracts and investment structure complies with Sharīʼah specifications all the time. Similarly, the primary business of the target companies must be Sharīʼah compliant (Chatti &Yousfi 2011; Karake-Shalhoub Z., 2008; Choudhury M., 2001).

3.2.7 Real Estate Investment Trusts

In this type of mutual fund, the pooled fund is invested to purchase, manage, and sell real estate assets such as commercial building, industrial lots, and retail complex. The rental generated from assets are distributed among unit holders. Contrary to conventional REITs Islamic real estate investment trusts have to be screened by Sharīʼah advisors. (Binti Mohamad et al., 2012; Newell et al., 2009; Bose et al., 2008; Dusuki, 2008).

3.2.8 Mixed Funds

The pooled funds are diversified in different investment instruments such as equities, leasing assets and commodities. The requirement from Sharīʼah perspective according to Usmani (2007), is the liquidity and debts of particular funds must be less than 50%, In that case, the units can be traded and negotiated. In contrast, the units cannot be tradeable (Usmani, 2007; Islamic Capital Markets Principles and Practice, 2015).

3.2.9 Balanced Fund

This fund aims to balance between capital growth and income by investing in stocks, shares, and partly in sukuk. The primary objective of the fund is to avoid excess risk and provide investment diversification. The funds meet both growth and income objectives. For instance, investing in stocks and shares ensures growth while the income derives from sukuk (Islamic Capital Markets Principles and Practice, 2015).

3.2.10 Fund of Funds

The pooled funds are invested in other mutual funds instead of investing directly in stocks and shares. To comply with Sharīʼah, both funds and their activities must be Sharīʼah compliant according to a particular jurisdiction. This type of mutual fund enables the fund managers to conduct cross border investments (Elfakhani, 2007).

3.3 Sharīʼah Mutual Funds Past and Present

The concept of managing fund can be seen with different contexts in managing waqf wherein the trustee manages and protects the waqf assets. However, according to a hadith reported in Sahih al-Bukhari, the first appointed trustee was Umar ibn al Khattab who played the similar role as the fund manager and the trustee play in modern fund management industry (Rashid and Husain, 1979).

The concept of waqf was introduced to the western world in 13th century. Later, trusts were created in European countries. According to Avini (1995), the concept of English trust was adopted from Islamic waqf practices. Thus, European countries and later, the USA expanded into mutual funds to attain financial benefits (Marwah and Bolz, 2009).

With regard to the modern Sharī'ah mutual fund industry, not onlyMuslim countries such as Malaysia, Indonesia, Saudi Arabia, United Arab Emirates, and Kuwait pioneering as major contributors, but interestingly, the United Kingdom, USA, Ireland, Luxembourg and Singapore, Hong Kong are among those countries that also have Sharī'ah mutual funds (Thomson Reuters Outlook, 2015; Global Islamic Asset Management Report, 2014).

Historically, the beginning ofSharī'ahmutual fund practices can be traced to 1960s in Malaysia wherein the Malaysian LembagaTabung Haji established its first kind of fund to facilitate Hajj and Umrah. The pooled savings were invested in Sharī'ah approved investments.

The lack of Sharī'ah approved avenues caused minimal participation in fund management. In 1997, the Securities Commission of Malaysia introduced Sharī'ah screening criteria and explored avenues for investments such as stock market. Consequently, many funds were launched and Islamic index was developed (Islamic Capital Markets Principles and Practice, 2015).

On the other hand, the first Sharī'ah compliant fund in GCC region, according to Wilson (2013), was established in 1987 named the Al-Ahli International Trade Fund. In the 1990s, the Al-Ahli Global Trading Equity Fund was formed.

Despite a small and marginal Muslim population in the USA, the first Islamic investment trust was formed in 1984, namely, Amana Mutual Fund Trust. Similarly, in 1986, the Income Fund was launched under that trust. Further, the, Growth Fund was established in 1994 (Islamic Capital Markets Principles and Practice, 2015).

However, Malaysia with its strong demand from domestic investors and established legal and regulatory framework, leads the rest of the world in terms of size and types of funds. While Saudi Arabia on the other hand, has the largest contribution due to its high-net-worth investors. According to Global Asset management report, 2014, Saudi Arabia and Malaysia and Luxemburg account for 71% of global Islamic funds .

Luxembourg has pioneered the development of Islamic finance and today is the prominent cross border hub for Islamic funds and platform for sukuk listings. According to the Islamic Fund Review (2014), Luxembourg offers various investment funds internationally. For instance, Sharī'ah complaint undertakings for the collective investment of transferable securities (UCITS) are popular among retail investors. Similarly, the specialised investment fund (SIF) enables investments to be diversified in wide range of private equity and real estate .

Nevertheless, currently, Islamic fund assets under management (AUM) have significantly increased to 1065 funds, worth USD 56 billion with 786 active Sharī'ah mutual funds worth USD 46 billion (Global Islamic Asset Management Report, 2014).

4. Conclusion

Islamic capital market functions parallel to conventional market and growing phenomenally in terms of size, products and sophistication. The Shari'ah mutual fund industry represents an essential sector of Islamic capital market. It provides opportunities to all investors irrespective of religion and faith, to invest in Shari'ah compliant portfolios and securities. Shari'ah mutual funds have the great opportunity to attract non-Muslim investors even all type of investors because it falls under the category of ethical or social responsible investment.

The Shari'ah mutual fund industry has grown significantly since its emergence in 1980s. The number of funds increased to 1065 Islamic funds worth of 56 million as at 2013. However, there is a substantial potential for the industry to grow further. The growth prospects of this industry remain positive in light of the potential progress and expansion of Islamic finance industry.

This paper formulated the basic foundation of mutual funds, starting from the definitions, various types of mutual funds, and historical development of mutual funds throughout the world. Nevertheless, similar to conventional mutual funds, Shari'ah mutual funds have become a successful alternative. The definitions, types and characteristics of Shari'ah mutual funds were discussed in addition to the historical development of Shari'ah mutual funds.

This paper adds the literature and gives the overview of both type of mutual funds. However, this paper recommends that further study might be extended to examine the performance of different type of funds comparing with conventional funds. In this regard the data could be gathered and quantitative methods could be applied.

References

[1] Alam Choudhury, M. (2001). Islamic venture capital-A critical examination. Journal of Economic Studies, 28(1), 14-33.

[2] Avini, A. (1995-1996). Origins of the Modern English Trust Revisited. Tulane Law Review 70(4), 1139-1164.

[3] Sundar, S. (2007). Indian Mutual Funds Handbook: A Guide for Industry Professionals and Intelligent Investors. Orient Paperbacks. New Delhi.

[4] Rowland, M. (2007). The New commonsense guide to mutual funds Orient Paperbacks. New Delhi.

[5] Fredman, A. J., & Wiles, R. (1998). How mutual funds work. Prentice Hall Press. New York Institute of finance

[6] Sundar, S. (2007). Indian Mutual Funds Handbook: A Guide for Industry Professionals and Intelligent Investors. Orient Paperbacks. New Delhi.

[7] Rowland, M. (2007). The New commonsense guide to mutual funds Orient Paperbacks. New Delhi.

[8] Fredman, A. J., & Wiles, R. (1998). How mutual funds work. Prentice Hall Press. New York Institute of finance

[9] Krichene, N. (2012). Islamic Capital Markets: Theory and Practice. John Wiley & Sons, Singapore.

[10] International Shari'ah Research Academy for Islamic Finance (ISRA) (2015), Islamic Capital Markets Principles and Practice. International Shari'ah Research Academy for Islamic Finance (ISRA) Lorong University and Securities Commission Malaysia,

[11] Baumol, W., Goldfeld, S. M., Gordon, L. A., & Koehn, F. M. (2012). The economics of mutual fund markets: Competition versus regulation (Vol. 7). Springer Science & Business Media.

[12] Khorana, A., Servaes, H., &Tufano, P. (2005). Explaining the size of the mutual fund industry around the world. Journal of Financial Economics, 78(1), 145-185.

[13] Securities and Exchange Board of India (SEBI), Mutual Funds Regulations 1996, http://www.sebi.gov.in/acts/MutualFunds.pdf

[14] Khan, M. Y. (2009). Indian Financial System (6th edn). Tata McGraw- Hill Companies, New Delhi.

[15] Bacha, O. I., &Mirakhor, A. (2013). Islamic Capital Markets: A Comparative Approach. John Wiley & Sons.

[16] Goetzmann, W. N., &Rouwenhorst, K. G. (2005). The origins of value: The financial innovations that created modern capital markets. Oxford University Press, USA.

[17] Sadhak, H. (1997). Mutual Fund Investment and Market Practices in India. New Delhi.

[18] Kamso, N. (2013). Investing in Islamic Funds: A Practitioner's Perspective (Vol. 874). John Wiley & Sons.

[19] Wilson, R. (2001). The economics of mutual funds: An Islamic approach. University of Durham,1-25. Retrieved10th May, 2016, http:// www .sc.com.my/wpcontent/uploads/eng/html/iaffairs/ioscoislamicpdf/IDBMUT.pdf.

[20] Schoon, N. (2011). Islamic Asset Management: An Asset Class on Its Own? Edinburgh University Press

[21] Usmani, M. T. (2007). Principles of Sharī'ah governing Islamic investment funds. Accountancy.com.pk, pp. 1-9. Retrieved May 9,2016 from, http://www.infinityconsult.com/sites/default/files/Ml%20TaqiUsmani%20-%20 Islamic_investmentfun pdf

[22] Omar, A., Abduh, M., &Sukmana, R. (2013). Fundamentals of Islamic Money and Capital Markets. John Wiley & Sons.

[23] Aroonpoolsup, S. (2013). Islamic financial markets: performance and prospects. Aligarh Muslim University http://hdl.handle.net/10603/11410

[24] Chatti, M. A., &Yousfi, O. (2011). Islamic Private Equity. Opportunities in Islamic Finance Unconventional answers to the credit crisis, Brian Kettle/ CPI Financial. pp.113.

[25] Karake-Shalhoub, Z. (2008). Private equity, Islamic finance, and sovereign wealth funds in the MENA region. Thunderbird International Business Review, 50(6), 359-368.

[26] Binti Mohamad, N. E. A., &Saad, N. M. (2012). Syariah REITs Vis-à-vis Conventional REITs: An Analysis. International Journal of Academic Research in Business and Social Sciences, 2(7), 1.

[27] Newell, G., &Osmadi, A. (2010). Assessing the importance of factors influencing the future development of REITs in Malaysia. Pacific Rim Property Research Journal, 16(3), 358-374.

[28] Bose, S., & McGee, R. W. (2008). Islamic investment funds: an analysis of risks and returns. Florida International University Chapman Graduate School of Business Working Paper.

[29] Dusuki, A. W. (2008). Practice and Prospect of Islamic Real Estate Investment Trusts (IREITs) in Malaysian Islamic Capital Market, Islamic Capital Markets Products, Regulations & Development, Proceedings of InternationalConference, Islamic Research and training Institute, IDB, pp.278.

[30] Elfakhani, S. M., Hassan, M. K., &Sidani, Y. M. (2007). Islamic mutual funds. Handbook of Islamic Banking, Edward Elgar Publishing Limited, UK & USA, pp. 256.

[31] Rashid, S. K., & Husain, S. A. (1979). Wakf Laws and Administration in India. Eastern Book Company, Lucknow.

[32] Marwah, H., &Bolz, A. K. (2009). Waqfs and trusts: a comparative study. Trusts & Trustees, 15(10), pp. 811-816.