

## Performance Analysis of selected Saudi Equity Mutual Fund Schemes in Banking and Nonbanking Companies Listed on Tadawul Stock Exchange

Zertaj Fatima<sup>1\*</sup>, Dr. Mohd. Akbar Ali Khan<sup>2</sup>

<sup>1</sup>MBA, M-phil. (Phd), Faculty, Community College for Girls, Jazan University, Kingdom of Saudi Arabia

<sup>2</sup>Professor, Maulana Azad Urdu University, Former Vice Chancellor Telangana University, Telangana, India

**\*Corresponding author**  
*Zertaj Fatima*

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**Abstract:** Mutual Fund investments nowadays are the most preferred investment option. Mutual Fund companies in Saudi financial market are the top profitable companies. Investors usually prefer banking financial institutions while investing their savings, since they feel banking financial institutions are more secure and risk-free than their counterpart nonbanking financial institutions. The purpose of this research is to change the customer preferences towards banking and nonbanking institutions which are offering mutual funds in Saudi financial market. The aim of this study is to compare the performance of Saudi equity mutual funds in banking and nonbanking companies listed on Tadawul stock exchange. The sample companies were chosen for this study consist of four banks and four nonbanking finance companies which are listed as mutual fund companies in Tadawul stock exchange. Standard Deviation, Beta and Sharpe performance measure has been applied in order to measure the performance of Saudi Equity Mutual fund finally one way ANOVA statistical tool is applied to compare the performance of banking and nonbanking companies.

**Keywords:** Saudi Equity Mutual Fund, Tadawul Stock Exchange, and ANOVA.

### INTRODUCTION

According to CMA (Capital Market Authority): Mutual Funds are investment pools that allow those individuals who do not have the ability to manage their investments directly, they have the opportunity to invest in global and local financial markets.

The idea behind mutual fund goes back to the first quarter of the 19<sup>th</sup> century in Europe. It was first started in the Netherlands in the year 1822 and then it was started in England in the year 1870. The real beginning of mutual funds in its current concepts was in 1924 in the United States of America. After that, it continued to expand in abroad and in the United States of America especially after World War II.

In the GCC countries, the Kingdom of Saudi Arabia was the first country to enter in the field of Mutual Funds. The National Commercial Bank (Al Ahli) was the first bank to offer the first mutual fund under the name of "Al Ahli Short Term Dollar Fund" in December 1979. In Saudi Financial Market the rules governing mutual funds were issued after 14 years from 1979, i.e. by the beginning of 1993. Saudi Mutual fund market has shown a positive growth in the financial market and it has given profits to its citizens. In the year 2016, the Kingdom of Saudi Arabia accounts for nearly 300 mutual funds managed by nearly 50 managers. The mutual fund schemes operating in Saudi Arabia are generally Shariah Compliant Funds. The initial focus was by private bank investors, but sooner all banks in Saudi Arabia started paying attention to other sectors.

Later, competition among banks has become more serious and started developing in-house expertise for managing funds whereas other financial institutions started alliances with other nonlocal agents.

### Banking and Nonbanking Financial Institutions

Banking financial institutions are the mediators that take funds from depositors, pool that money, and lend it to those seeking funds. The banking institutions make their money in part by paying the depositors less interest than they charge borrowers and keeping the difference in their pockets. Banks often offer checking and savings accounts, certificate of deposits, personal and business loans, mortgages and credit cards.

Nonbanking financial institutions (NBFIs) are the mediators that do not have full banking licensed or is not supervised by national or international banking regulatory agencies. NBFIs functions are Insurance Forms, Check-Cashing Service, Pawn Shops, Hedge Funds, Payday Lenders and Currency Exchanges.

**Mutual Fund**

Mutual Fund can be defined as a trust that pools the savings of individual investors to invest in a large number of securities. The investors can invest in bonds, stocks, money market securities, or any of these combinations. The securities are managed professionally by managers on behalf of each investor. Mutual funds for each individual investor provide the benefits of investment management, low cost, diversification, and liquidity.

**Tadawul Stock Exchange**

Saudi Stock Exchange is the only stock exchange in Saudi Arabia. It is supervised by the Capital Market Authority. It was founded on March 19, 2007, and its currency is SAR (Saudi Arabian Riyal). Its indices is known as TASI index (Tadawul All Share Index). In Tadawul Stock Exchange 42 mutual fund companies are listed, of which 12 are nationalized banks listed on Tadawul Stock Exchange and the remaining are nonbanking mutual fund companies.

**Tadawul as Middle East Largest Stock Market**

Tadawul stock exchange occupies an advanced position in emerging markets of GCC stock markets. Tadawul stock market is the largest with highest market capitalization in GCC. There have been several initial public offering and liquidities are high.

Saudi Arabia stock market also derives strength from its strong banking system, which is regulated by the Saudi Arabian Monetary Agency (SAMA). Due to a conservative outlook adopted by SAMA, systematic risks in the banking system appear to be minimal. The commercial banks in Saudi Arabia maintained a capital adequacy ratio (CAR) of about 17% and the end of 2014, compared to the Basel III requirement of 10.5%. The loan to deposit ratio of 80% at end-2014 is also within a comfortable range. Additionally, a well-diversified loan portfolio reduces overall risks for Saudi Banks. The strength of Saudi Arabia banking system is reflected by the fact that it was largely unaffected by the global financial and economic crisis in 2008-2009. Thus, Tadawul stock market has been making reforms to strengthen its position as a gateway to the kingdom and is seeking double its market capitalization in the future.

**Table-1: Different categories of schemes listed on Tadawul Stock Exchange**

CATEGORY NAME
Equity Funds - Local
Equity Funds - International/ Global
Equity Funds - US
Equity Funds - European
Equity Funds - Asian
Equity Funds - Arabian
Bond/ Debt Funds - International
Bond/ Debt Funds - Local
Money Market Funds - International
Money Market Funds - Local
Money Market Funds - Foreign Currency Murabaha
Money Market Funds - Saudi Riyal Murabaha
Equity Funds - GCC
Funds of Funds
Balanced Funds - International
Balanced Funds - Local
Real Estate Funds
Multi - Assets Funds
Other Funds

(Data collected from Tadawul.com)

**Equity Funds**

The main objective of the equity fund is to provide capital appreciation over a long duration. An

Equity funds major portion of the investment is invested in equities which provide more return in comparison with other avenues of investment option.

Table 2: Saudi Equity Funds with Unit Price and NAV

SCHEME NAME	UNIT PRICE	NAV
Al Rajhi Saudi Equity	417.6209	304,908,969.57
Al Ahli Freestyle Saudi Equity	1.0411	132,977,274
Riyad Equity Fund1	14.3227	177,875,097
Saib Saudi Equity	189.0561	40,974,688
Global Saudi Equity	231.7974	516,463,325.74
Osool & Bakheet Saudi Trading Equity	1.9897	14,777,460.3
Morgan Stanley Saudi Equity	321.3266	28,233,754.22
Deerayah Freestyle Saudi Equity	11.4483	10,242,095.44

(Data collected from Tadawul Stock Exchange)

## LITERATURE REVIEW

### Review of literature on Mutual Funds

According to Sharpe [1], the expected return on efficient portfolio and its unsystematic risk are linearly related. He developed a concept called Sharpe index and he concluded in his research by attempting to rate the performance on the basis of the optimal portfolio with the risky portfolio and a risk-free asset is the one with reward to variability whereas the unsystematic risk is related to particular security due to inefficient management.

Cummings [2] in his research examined the performance of 7 ethical equity funds in Australia and concluded that there is no significant difference in the returns of equity funds in comparison with both large and small mid-cap benchmark for a period of 1986-1994.

The research was done by Price & Bacon [3] in their studies analyzed that the small-cap growth stocks sector of mutual fund industry against market returns and risk-free return over the period of 10 years. The author concluded that some excess returns have been generated, however beyond a handful of the funds and it is impossible to rely upon a single benchmark as a reliable indicator of the past performance.

Brown Keith [4] as a researcher measure the volatility of fund's style and evaluated that average funds which have lower levels of style volatility significantly outperformed the more style volatile fund which is based on risk-adjusted.

Garg [5] conducted a research to evaluate the mutual fund performance for the period between 2002 to 2013. The study used primary and secondary data to evaluate the mutual fund performances. Garg in his studies concluded that the schemes, which has been chosen for a sample of the study had outperformed the market and average performance was found in Jensen, Sharpe and Treynor measures.

Zertaj & Dr. Mohd Akbar [6] in their research on "Behavioural Factors Influence on Investment Decision in Mutual Funds: Evidence in Public and Private Banks Mutual Funds Investors have been analyzed. The results indicated that the past

performance of mutual funds schemes, the reputation of the fund manager, service quality and portfolio (fund objective) are the main variables which are usually preferred by the investors while investing in mutual funds.

Zertaj & Dr. Mohd Akbar [7] in their research about mutual funds schemes of banking, nonbanking and ethical funds in India. The authors conclude that the relationships between the banking and nonbanking mutual fund schemes are strongly correlated and the relationships between the banking and ethical mutual funds are moderately correlated with each other.

### Review of literature on Saudi Mutual Funds

D.N. Rao [8] in his research analyses the performance of mutual funds in Saudi Arabia. The author presents a systematic way of analyzing the performance of mutual funds which can be helpful for the investors to assess the risk-return profile of mutual funds in Saudi Arabia. Finally, the author concluded in his research that the funds have performed well in bearish markets are capable of performing even better in bullish and stable markets and the research also reflects the capabilities of fund managers in terms of stock timing and stock selections.

Ahmed & Dalin [9] examines the performance of 21 Saudi mutual funds using the CAPM and downside CAPM models over the periods 2005-2011. In this research the author examined equity fund performance against two benchmarks TASI and the GCC Islamic index, the traditional beta and CAPM then the same equity funds are again reexamined using downside CAPM. Finally, the researcher after examining CAPM and D-CAPM concludes that D-CAPM could be superior measure because of its suitability for the asymmetrical distribution of returns existing in emerging markets in general.

Dr. Abirami & Dr. Humera [10] has done research that focuses on the returns of all the mutual fund categories in Kingdom of Saudi Arabia. The authors compared the base currencies and different types of funds using T-test and ANOVA. Finally, the researchers conclude that the best performing mutual funds are capital preservation fund category, nonshariah based and US\$ currency based mutual funds.

Al Rahahlah, Naseem, and Bhatti, Ishaq [11] "Mutual Fund Performance in Saudi Arabia: Do locally focused equity mutual funds outperformed the Saudi market? ", Faculty of Economics and Administration, King Abdulaziz University, Jeddah; August 2017. The researchers in this study compare equity mutual funds with their benchmarks performance in Saudi Financial market. They concluded in their research that the locally focused equity produced a significantly higher mean return percentage that the TASI returns.

### Research Gap

Most of the researchers in their studies compared Islamic and Conventional Mutual Funds in Saudi Arabia or few of the studies has been done on the performance of Mutual Funds in Saudi Arabia. None of them compared the banking and nonbanking Mutual Fund performance in Saudi Financial Market. Hence the present study fills the gap of comparing the banking and nonbanking mutual fund performance listed on Tadawul Stock Exchange in Saudi Financial Market.

### HYPOTHESIS

**H<sub>0</sub>:** There is no significant difference between the performance levels of banking and nonbanking mutual funds schemes listed on Tadawul Stock Exchange.

### OBJECTIVES OF THE STUDY

- To study the selected banking Mutual fund schemes listed on Tadawul Stock Exchange in Saudi Arabia.

- To study the selected nonbanking Mutual fund schemes listed on Tadawul stock Exchange in Saudi Arabia.
- To compare the performance of banking and nonbanking mutual fund performance listed on Tadawul stock exchange.
- To compare the measure and total risk of selected equity schemes.

### LIMITATIONS OF THE STUDY

Due to the limitation of the secondary data, only 8 mutual fund companies have been chosen for the study.

### RESEARCH METHODOLOGY

Standard deviation, Beta, Sharp index and ANOVA statistical method have been applied in this study.

### Data Collection

Data gathered from current annual factsheets of the selected equity mutual fund schemes and Tadawul Stock Exchange.

### Sample Size

Four banking and four nonbanking Saudi equity mutual fund schemes have been chosen as a sample for the current study

### ANALYSIS AND INTERPRETATION

**Table and Graph representing standard deviation of selected schemes**

Saudi Equity Funds	St.Dev
Al Rajhi Saudi Equity Fund	10.7
Riyad Equity Fund 1	23.8
AlAhli Freestyle Saudi Equity Fund	11.39
Saib Saudi Equity Fund	15.16
Morgan Stanley Saudi Equity	17.92
Global Saudi Equity Fund	19.4
Osool and Bakheet Saudi Trading Equity Fund	16.38
Deerayah Freestyle Saudi Equity Fund	11.56

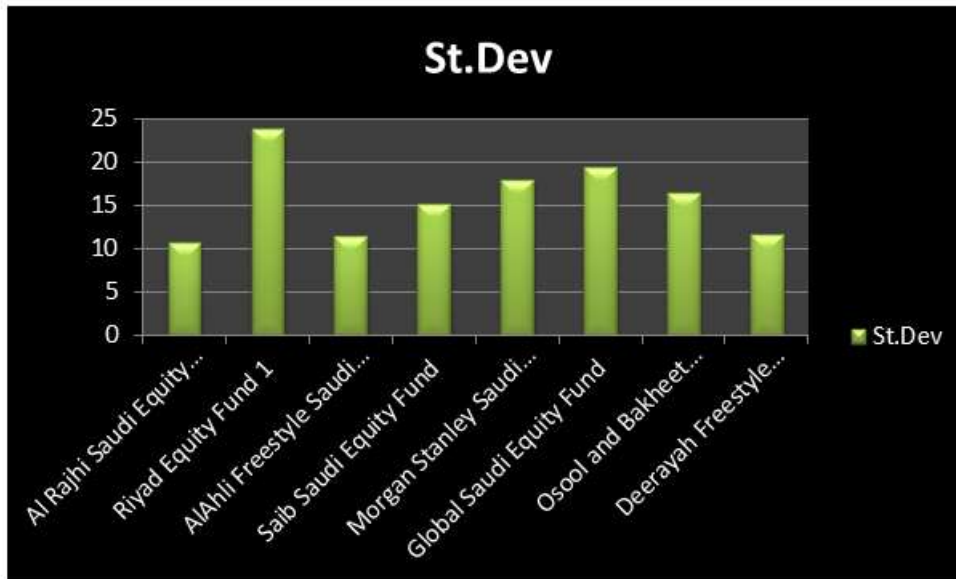
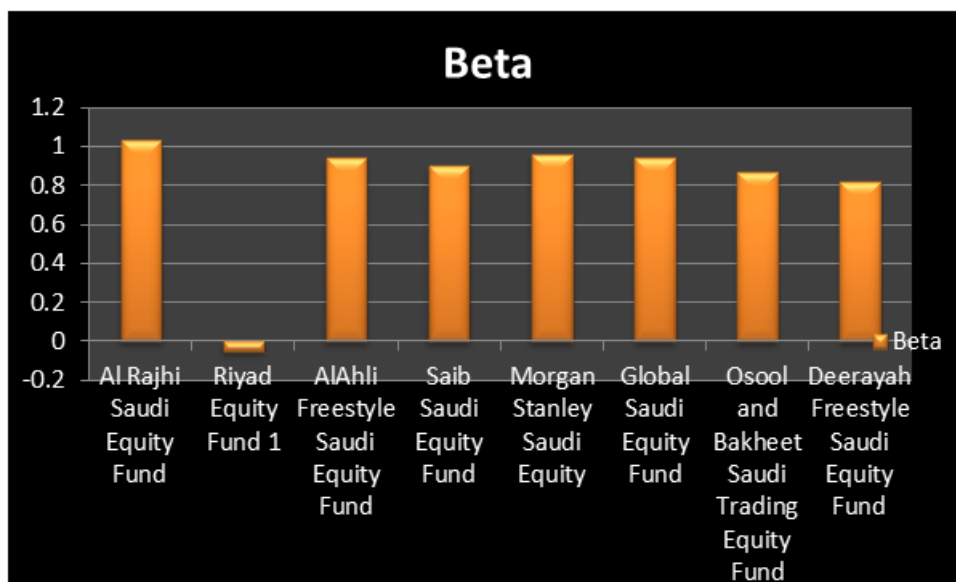


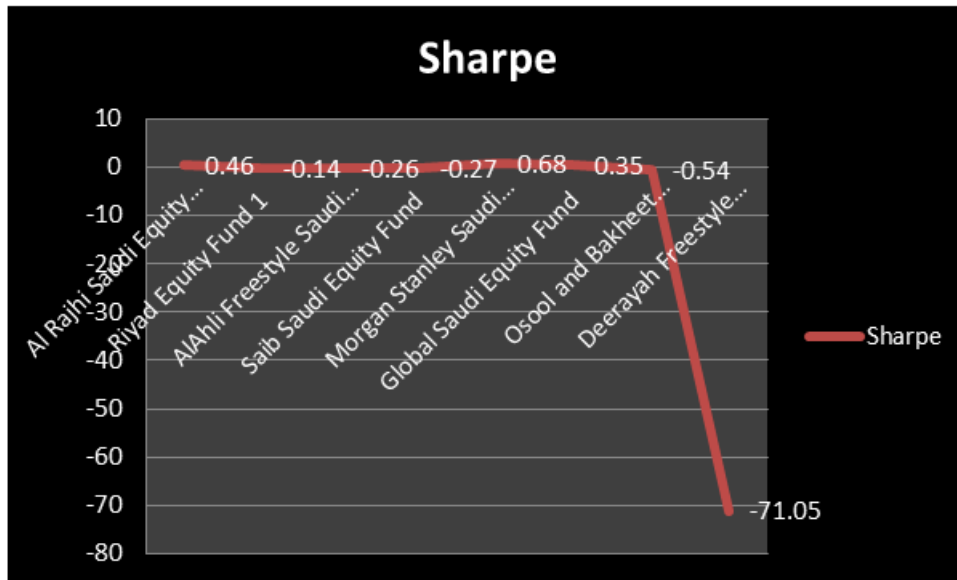
Table and Graph representing Beta of selected schemes

Saudi Equity Funds	Beta
Al Rajhi Saudi Equity Fund	1.03
Riyadh Equity Fund 1	-0.05
AlAhli Freestyle Saudi Equity Fund	0.94
Saib Saudi Equity Fund	0.9
Morgan Stanley Saudi Equity	0.96
Global Saudi Equity Fund	0.94
Osool and Bakheet Saudi Trading Equity Fund	0.87
Deerayah Freestyle Saudi Equity Fund	0.82



**Table and Graph representing Sharpe values of selected schemes**

Saudi Equity Funds	Sharpe
Al Rajhi Saudi Equity Fund	0.46
Riyad Equity Fund 1	-0.14
AlAhli Freestyle Saudi Equity Fund	-0.26
Saib Saudi Equity Fund	-0.27
Morgan Stanley Saudi Equity	0.68
Global Saudi Equity Fund	0.35
Osool and Bakheet Saudi Trading Equity Fund	-0.54
Deerayah Freestyle Saudi Equity Fund	-71.05



**Table representing performance measures and ANOVA of selected schemes**

Scheme	St.Dev	Beta	Sharpe
Banking	10.7	1.03	0.46
Banking	23.8	-0.05	-0.14
Banking	11.39	0.94	-0.26
Banking	15.16	0.9	-0.27
Nonbanking	17.92	0.96	0.68
Nonbanking	19.4	0.94	0.35
Nonbanking	16.38	0.87	-0.54
Nonbanking	11.56	0.82	-71.05

ANOVA						
Source of Variation	SS	Df	MS	F	P-value	F crit
Between Groups	1717.7915	7	245.3988	0.738381	0.643623	2.6571966
Within Groups	5317.5543	16	332.3471			
Total	7035.3459	23				

(Compiled by authors)

**Interpretation**

From the above ANOVA table it is proved that F critical value is greater than F calculated value. Hence the null hypothesis is accepted. Therefore it can be concluded that there is no significant difference between the performance levels of banking and nonbanking Saudi equity mutual fund schemes.

**FINDINGS**

After analyzing the banking and nonbanking mutual fund schemes, listed on Tadawul Stock Exchange in Saudi Arabia.

The results indicate that the banking and nonbanking mutual fund schemes are performing competitively equal in the financial market of Saudi Arabia.



- Sharpe value of all selected schemes is nearly same except the Deerayah Freestyle Saudi Equity
  - In the comparison of Beta value of selected equity schemes, Riyadh Equity 1 has very low value and other selected schemes have nearly same beta value
  - In the comparison of Standard deviation of selected schemes, Riyadh Equity Fund 1 is attaining a higher value.
  - The statistical tool ANOVA interpret that there is no significant difference between the performance levels of banking and nonbanking Saudi Equity Mutual Fund schemes.
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## CONCLUSION

Mutual fund investment is the substitute for those investors who cannot invest this amount in the stock market for a reason like the involvement of high risk in stock markets and investors have less knowledge about the procedure of stock market adversities in the financial market. The mutual fund companies in Saudi Arabia are under the regulation of Tadawul Stock Exchange, so there is less risk of fraud and the investors have a vast number of opportunities for the investment purpose of investing in banking and nonbanking mutual fund companies. The investor in Saudi Financial Market also has a large number of choices to invest in different types of schemes which in return will give them higher financial returns.

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