Determinant Performance of Islamic Equity Funds in Indonesia

Alif Khuwarazmi Maulana Julendra*, Dwi Marlina Wijayanti and Slamet Haryono*

*UIN Sunan Kalijaga, Yogyakarta, Indonesia

Abstract: One of the issues that have an impact on the growth of Islamic Equity Funds is financial risk tolerance. While it is a fundamental issue that is directly related to Islamic Equity Fund’s manager performance. If investment managers perform better to cultivate Islamic Equity Funds, then the intention in investing within Islamic Equity Funds will be increased. This research aims to determine and provide information about Islamic Equity Funds’ performance in Indonesia. It used quantitative statistical analysis to investigate the influence of stock selection skills, market timing ability, fund size, fund age, expense ratio, and portfolio turnover towards the Islamic Equity Funds performance. This study used annual data over the periods 2015-2020 which was obtained from the prospectus of each Islamic Equity Fund, Central Bank Indonesia (BI), and Statistics Indonesia (BPS). The result indicates that stock selection skill and expense ratio have a positive significant impact on the performance of Islamic Equity Funds, while market timing ability, fund age, and fund size have not a significant impact but the result revealed positive values. Otherwise, the portfolio turnover has a negative significant impact on Islamic Equity Funds' performance. Hence, it can be inferred that the higher investment managers ability to select its portfolio stock, the better return will be obtained and it can be inferred that the expense ratio of an equity fund reflects how much it pays for portfolio management, administration, marketing, and distribution, among other things.

Originality/Value: This paper focuses on the issue that occur in Islamic equity funds which are very essential as an investment portfolio, and only a few papers have conducted research in this area. Therefore, knowing the key factors that influence the performance of Islamic equity funds can optimize their function and attract investors.

Introduction

Islamic Equity Funds have grown significantly in Indonesia over the last few years. From 2015 to 2020, The Net Asset Value has risen around 5.7% in tandem with the rising number of Islamic Equity Funds listed on the Indonesian stock exchange (Financial Services Authority, 2021). According to Pew Research Center (Pew Research Center, 2020), Indonesia is home to the world's biggest Muslim population, about 219,960,000 people, or 82% of the total population. This fact is equitable that the
presence of Islamic Equity Funds is a necessity for Indonesian people and should be the choice for investment by the public.

Islamic Equity Funds should be viewed as a viable option for investors who previously invested in conventional ones. Many investors invest in Islamic Equity Funds for spiritual reasons, while others regard them as socially responsible investments. Others may invest in Islamic Equity Funds to diversify their portfolios (Zouaoui, 2019). However, until the end of the 2020 fiscal year, the number of investors in Islamic Equity Funds only reached 376 thousand investors, or only 0.1% of the total population. In contrast to other countries, Islamic Equity Funds become most of the people’s choice, such as Malaysia, an investor in Islamic equity funds have reached 40% of the total population (Bareksa, 2019).

Financial risk tolerance is one of the issues which affects the growth of Islamic Equity Funds (Widyastuti et al., 2019). It is a fundamental issue that is directly related to Islamic Equity Fund’s manager performance (Aljaed et al., 2019). If investment managers perform better to cultivate Islamic Equity Funds, then the intention in investing within Islamic Equity Funds will be increased (Ali et al., 2015). The research on the performance of Islamic Equity Funds is critical in explaining how investment managers should select and develop their investment strategies (Zouaoui, 2019). Therefore, this research aims to determine and provide information about Islamic Equity Funds’ performance in Indonesia.

Tan (2015), Papadamou et al. (2017), Rao et al. (2017), and Zouaoui (2019) determined that the performance of investment managers is affected by two abilities: stock selection skill and market timing ability. Islamic equity funds can succeed if managers develop both selectivity and market timing methods (Zouaoui, 2019). The first is stock selection skill, which is the capacity of investment managers to select the appropriate portfolio, the ability to forecast the price fluctuations of specific portfolio stocks (Kabir, 2017; Low, 2012; Omri et al., 2019). The second is market timing ability, which refers to an investment manager’s ability to accurately allocate stocks at the right time (Rao et al., 2017). Market timing refers to the distribution of assets among various forms, which is typically confined to stocks and short-term government debt. The effective market timing ability increases the length of equities in the portfolio before the market rises and lowers the weight before the market goes down (Pilbeam & Preston, 2019).

To accord the empirical work, this research used a measure elaborated by Treynor-Mazuy and added extra variables. Therefore, to determine Islamic Equity Funds performance, certain variables can be considered such as fund age, fund size, expense ratio, and portfolio turnover. Fund age is the number of years since its inception (Amman et al., 2018). The longer investment managers have been established, the better its efficiency (Bai et al., 2019). Furthermore, the period of equity fund will provide investors with a clear image of success, has a longer lifespan, a proven track record, and provide investors with a better overview of results (Kiymaz, 2018). Fund size is determined by their total net assets value. The size of assets will provide versatility, enhance bargaining leverage, and lead to the creation of an economic ladder, which has a significant effect on performance (Nguyen et al., 2018). Expense ratio is a comparison of one year's operating expenses to one year's average net asset value (Deb, 2019; Nguyen et al., 2018; Rao et al., 2017). Deb (2019) divided the expense ratio of equity funds into three categories: high, medium, and low expense ratio. Islamic Equity Funds with the lower expense ratio perform better than the higher one. Then expense ratio has an important role in equity funds performance. Portfolio turnover shows the investment managers’ strategy to carry out activities of buying and selling portfolios with high frequency. It shows the high trading activity of the equity fund, the greater the portfolio turnover rate, the greater the potential return (Rehan, 2020). High trading activity refers to an investment manager's efforts to maximize profits by making deals at the proper time (Cai & Lu, 2019). Investment managers with an active investment style define the performance of an equity fund better than managers with a passive investment style (Kaur, 2018).

Mohamad and Ashraf (2015) investigated Islamic Equity Funds’ performance using the Treynor ratio and compared them to their conventional counterparts in various countries. Omri et al., (2019) demonstrated that Islamic Equity Funds outperform conventional equity funds over time due to lower global market risk, fewer capital withdrawals, lower volatility, and investor commitment. Hence, the majority of research on Islamic Equity Funds compares Islamic and conventional counterparts. Unlike previous research, to fill the gap, this research aims to evaluate the influence of stock selection skills (Kabir, 2017), market timing ability (Pilbeam & Preston, 2019), fund size (Basso & Funari, 2017), fund age (Kaur, 2018), expense ratio (Hoepner et al., 2011) and portfolio turnover (Rusmita et al., 2019).
towards the Islamic Equity Funds performance. Expected by both Islamic Equity Funds investors and investment managers, so the variable is determined based on later conditions.

**Literature Review**

**The Portfolio Theory**

Investment refers to the deferral of individual or institution present consumption for the sake of efficient production for a set length of time (Hartono, 2017). Whereas Sunariyah (2011) defines an investment as a financial transaction in which one or more assets are purchased with the expectation of receiving a return in the future. Assign to the above terminology, it can be concluded that investment is the process of creating capital into various assets over some time to reap future advantages.

Considering a consumer with a specific amount of income, the consumer typically faces two major financial decisions. First, how should current consumption be distributed among goods and services. Second, how to choose between different assets to invest in. The consumption-saving decision and the portfolio selection decision are two complementing consumer concerns (Constantinides & Malliaris, 1995). The modern portfolio theory was developed by Markowitz (1952). A portfolio is a collection of assets in which an investor chooses to invest (Petters & Dong, 2016). Selecting the portfolio optimally is a difficult problem that necessitates forecasts on the existing state of the assets under consideration (Seetharaman et al., 2017). Portfolio theory suggests that investors are rational and would construct portfolios that provide the best feasible anticipated return for a given amount of risk.

**Capital Asset Pricing Model (CAPM) Theory**

The Capital Asset Pricing Model (CAPM) is a mathematical model that describes the relationship between systematic risk and expected return for assets, especially equities (Pilbeam & Preston, 2019). The CAPM model is commonly used in finance to price volatile securities and generate predicted returns for assets based on risk and cost of capital (Constantinides & Malliaris, 1995). The Capital Asset Pricing Model (CAPM) was used by Sharpe (1964) to analyze how the relationship between a portfolio return (R_p) and the market portfolio return (R_m). By making a simple regression equation where the dependent variable is the return of an asset and the independent variable is the return of the market portfolio, it will be known how the influence or relationship between the return from the market portfolio and the return of a particular asset will be.

**Islamic Equity Funds**

According to Widjaja & Ramaniya (2009), equity funds are a form of investment provision that was established to assist investors who want to engage in the capital market without active interference in capital market procedures, administration, and analysis. This is because equity funds in the form of collective investment contracts and equity funds in the form of corporations are managed by investment managers who have equity fund investors. According to the Capital Market Law number 8-year 1995 article 1, paragraph 27: "Equity funds is a vehicle used by an investment manager to gather funds from the public for investment in a securities portfolio. Similarly, with other means of investment, equity funds in addition to producing a certain profit rate (return) also contain elements of risk that should be considered (Sunariyah, 2011). Terminologically, Islamic Equity Funds is one of the various types in Islamic Equity Funds. It is administered according to Islamic law's terms and principles (Alam et al., 2017). Islamic Equity Funds will not engage in portfolio stocks issued by firms whose management or goods are contrary to Islamic standards (Widyastuti et al., 2020).

**The Sharpe Ratio**

William Sharpe (1966) developed a risk-adjusted performance measure which is commonly used to evaluate a portfolio and investment manager's performance. Sharpe demonstrated that the performance of investment managers may be assessed using a simple theoretically relevant metric that considers both average return and risk. This measure excludes the detection of performance disparities caused purely by objectives differences. Even when performance is measured in this way, there are disparities amongst funds, and these differences do not appear to be completely temporary (Sharpe, 1994). The Sharpe ratio
is similar to the Treynor technique that calculates the risk premium per unit of total risk, however, it employs portfolio total risk instead of systematic risk (Tan, 2015).

**The Treynor-Mazuy Ratio**
The ability of investment managers to select the appropriate portfolio is referred to as a stock selection skill. It refers to the manager's ability to predict the price movements of stock investments (Kabir, 2017; Low, 2012; Omri et al., 2019). The Treynor Mazuy ratio is considered as the standard model to assess fund managers ability to choose stocks and time the market (Rao et al., 2017). This ratio was introduced by Treynor and Mazuy (1966). They developed a market timing model, added a quadratic element to the Jensen equation, the square of the market risk premium, and quantified the effects of market timing strategies (Oliveira et al., 2018). Considering investors' profit from both market rise and market fall situations, an investment manager which advocates market timing ability, organizes the portfolio to have a comparatively high beta during a market rise and a generally low beta during a market collapse (Kabir, 2017). A significant positive assessment of the coefficient associated with the quadratic term indicates that the fund manager created value to the portfolio by devising a profitable market timing strategy (Rao et al., 2017). Depending on whether the overall stock market is growing or decreasing, investment managers can alter the makeup of their portfolios. If investment managers anticipate the market will decline, they will alter their portfolios' allocation from riskier to fewer volatile equities. If an investment manager believes the market is about to crash, they will shift their portfolio in the opposite direction (Tan, 2015).

**Fund Age**
The use of fund age in terms of testing the factor affecting equity funds’ performance firstly was conducted by Golec (1996). The study explained that fund age is used to know an investment manager’s experience, prestige, and the loyalty of its investors. Deb (2019) argued that Funds that have outlasted the industry’s competitors for a while should do well. They will almost likely attract stronger managers and demand greater fees.

**Fund Size**
Fund size is defined as the amount size of assets assessed by the net assets value of the Islamic Equity Funds. It will provide flexibility, increase bargaining power and facilitate the creation of economic scale which can impact on reducing costs in equity funds’ performance (Nguyen et al., 2018). Firms with a large board size can perform monitoring and supervisory functions more effectively because of the greater shared information (Naveed et al., 2020). Basso & Funari (2017) explained that the importance of including fund size in equity fund performance evaluations derives particularly when the analysis is centered on the perspective of financial investors. Several studies have shown a correlation between size and performance negatively (Phillips et al., 2018). Hassan et al., (2020) show evidence that Islamic investments outperform conventional equity funds when fund size is limited. On other hand, Rokhim & Octaviani (2019) found that there is a negative sign of fund size effect on all types of Islamic Equity Funds in Indonesia.

**Expense Ratio**
The expense ratio is considered to be an important issue in the equity fund industry (Rao et al., 2017). Livingston et.al (2019) argued that expense ratio has a significant impact on equity funds’ performance. Equity funds managed by a single manager usually have considerably more concentrated portfolios, perform significantly better, and have higher cost ratios than funds managed by many managers (Goldman et al., 2016). Then, the expense ratio is always related to the performance of equity funds. Furthermore, the cost ratio paid by equity funds is published for the investor to be aware of it to provide transparency to the charges imposed by equity funds. It can be used to measure the amount of investment value issued by investment managers in managing equity funds (Kaur, 2018).

**Portfolio Turnover**
Othman et al., (2018) explained that portfolio turnover is the frequency of assets purchased and sold divided by the year's average Net Asset Value (NAV). Rehan (2020) defined the portfolio turnover as a financial ratio that shows the organization's efficiency in terms of how much income or revenue it
generates by using its assets. The portfolio turnover firstly was introduced by Grinblatt &Titman (1989) and Droms & Walker (1996) to assess the equity fund performance. These were the first large-scale studies to look at the multivariate connection between investment performance and portfolio turnover. The high portfolio turnover indicates that investment managers accurately forecast market developments such as different current concerns, and equity funds with high turnover result in improved performance. However, equity funds with low turnover perform adversely (Grinblatt & Titman, 1989).

**Muamalat Contracts Regarding Islamic Equity Funds**

According to DSN MUI Fatwa No. 20/DSN-MUI/IV/2001, regarding guidelines for the implementation of Islamic Mutual Funds article 2 paragraph 1 mentioned the mechanism for Islamic Mutual Funds activities. The mechanism that focuses on operations is as follows: (1) Between investors and investment managers, it is carried out using a wakalah system. The wakalah contract system in Islamic Mutual Fund transactions is that the investor gives a mandate to the investment manager to carry out investments for the benefit of the investor, in accordance with the provisions contained in the prospectus. (2) Between investment managers and investors, the mudharabah system is carried out. The characteristics of the mudharabah system in Islamic Mutual Fund transactions are described in the DSN MUI Fatwa No. 20/DSN-MUI/IV/2001 concerning guidelines for the Implementation of Islamic Mutual Fund Article 2 Paragraph 2: First, the distribution of profits between investors (sahib al-mal) represented by investment managers and investors is based on the proportions that have been agreed by both parties through investment manager as a representative and there is no guarantee of certain investment results to investors. Second, investors only bear the amount of funds that have been given. Finally, the investment manager acts as a representative and does not bear the risk of loss on his investments as long as it is not due to his negligence (gross negligence/tafrith).

**Previous Studies and Hypothesis Development**

Tan (2015) explains selectivity ability as the ability of investment managers to take advantage of undervalued assets while developing market timing abilities to forecast future market fluctuations. Zouaoui (2019) argued that Islamic Equity Funds' performance is influenced by stock selection skills. Mohammad & Ashraf (2015) suggested that the stock selection is used to comply with Islamic Equity Funds’ performance. Ashraf (2013) found that overall, stock selection skill has a positive result in the Saudi Arabian equities. In contrast, conventional equity funds generally reflect a negative stock selection skill. Chen & Lai (2014) suggests a substantial connection between stock selection and equity fund performance. Proficient investment ability results in positive stock selection and as a result, high returns. Oliveira et al., (2018) explained that investment managers were more effective in selecting undervalued assets in the crisis period than in the pre-crisis period, with a statistically significant and positive parameter being equal in both times. As a result, the more an investment manager's skill to choose portfolio stocks, the greater the return achieved. This suggests that the stock selection skill variable has a favorable influence on the performance of Islamic equity funds. According to the evidence above, the researcher proposes the first hypothesis.

**H1:** Stock selection skill has a significant positive impact on Islamic Equity Funds performance.

Merti et al., (2017) demonstrated that market timing ability has a positive significant influence on the performance of Islamic Equity Funds. The ability to time the market has an impact on the performance of equity funds because market timing abilities are a direct way to find out what portfolio management strategies are being applied by investment managers. Meanwhile, Gusni et al., (2018) demonstrated that market timing skill has no significant impact on the performance of equity funds. On the contrary Sari et al., (2019) indicated that market timing ability affects Islamic Equity Funds performance significantly in Indonesia for the period 2011-2014. The rationalization for this hypothesis, if the investment manager can provide a higher market return, it will adjust portfolio risk in advance of market movements and generate the market timing ability to have a positive impact on Islamic Equity Funds performance. Hence, the second hypothesis for market timing ability is as follows

**H2:** Market timing ability has a positive significant impact on Islamic Equity Funds performance.
Sukmaningrum & Mahfud (2016) conducted a study using fund age as an independent variable toward equity funds in Indonesia, the result indicates that fund age give a positive effect significant on the equity funds’ performance. Rao et al., (2017) investigated the research on equity fund performance and attributed fund age as an independent variable, the findings revealed a significant influence between equity fund performance and fund size. Kiymaz (2018) observed the performance of Chinese equity funds from 2000 to 2013, using the Sharpe ratio and fund age. Fund age was shown to be considered significant in explaining cross-sectional variance in fund performance. The period of an equity fund will provide investors with a clear image of equity fund success, has a longer lifespan, a proven track record, and provide investors with a better overview of results (Kiymaz, 2018). If the investment manager has more experience than younger managers, then the older equity fund will perform better. This suggests that the fund age has a significant influence on the performance of Islamic Equity Funds. According to the evidence and rationalization above, the third hypothesis for fund age is as follows.

H3: Fund age has a significant positive impact on Islamic Equity Funds performance.

Kaur (2018) investigated the correlation between fund size and equity fund performance in India. The findings indicated that fund size had a negative influence on equity fund performance. Chen & Lai (2014) indicated that fund size was significant towards Islamic Equity Funds in the three regressions, the negative sign of those coefficients was consistent with the literature. Also, Devi & Sudirman (2021) highlighted a negative influence of fund size on equity funds, stating that as fund size grows, it becomes more difficult for fund managers to successfully manage operational activities of funds. Moreover, Rokhim & Octaviani (2019) found that the form of fund size harms Islamic Equity Funds performance in Indonesia. According to Hoepner et al., (2011), determining the impact of fund size on Islamic Equity Fund performance could provide further insight into the attractiveness of active Islamic Equity Fund performance. According to the facts presented above, the fourth hypothesis regarding fund size is as follows.

H4: Fund size has a negative significant impact on Islamic Equity Funds performance.

According to Rehan (2020), the investment returns of Islamic Equity Funds are higher than those of conventional funds, while the expenses of conventional funds are higher than those of Islamic Equity Funds. Marzuki & Worthington (2015) conducted a research comparison between Conventional Equity Funds and Islamic Equity Funds' performance in Malaysia. According to the findings, both conventional and Islamic Equity Funds have a strong favorable association between expense ratio and equity funds’ performance. Meanwhile, Nguyen et al., (2018) confirm that the expense ratio was a statistically positive significant influence on the equity funds’ performance. Goldman et al., (2016) indicated that expense ratio has a negative impact on equity funds’ performance (which is intuitive). Whether large or small expenses are committed, it would have an impact on the investment returns provided to investors. This suggests that the expense ratio has a positive impact on the performance of Islamic Equity Funds. According to the facts presented above, the fifth hypothesis for expense ratio is as follows.

H5: Expense ratio has a positive significant effect on Islamic Equity Funds performance.

Equity funds with a high portfolio turnover imply that their investment managers buy and sell entire portfolios regularly (Marzuki & Worthington, 2015). The high portfolio turnover might be regarded by investment managers as a sign of their efforts to add value to the fund’s portfolio by spotting undervalued or overvalued assets and making market timing purchase and sell decisions (El-Masry et. Al, 2016). Galagedera et al., (2018) investigate the resource management (included expense ratio and portfolio turnover) toward equity funds’ performance in the United States, the result revealed that resource management has a positive significant effect on equity funds’ performance. Kiymaz (2018) found that portfolio turnover affects equity funds’ performance significantly. Also, Sari et al., (2019) showed that there is a positive significant effect between portfolio turnover and Islamic Equity Funds. Amman et al., (2018) examined the effect of portfolio turnover on equity fund performance in Finland, the result indicates that portfolio turnover has no significant effect on equity funds’ performance. Investment managers with active investing techniques will outperform managers with passive investing styles in terms of Islamic Equity Funds performance. This shows that the portfolio turnover has a positive influence on equity fund performance and implies that Islamic Equity Funds with a high
portfolio turnover outperform those with a low portfolio turnover. Based on the evidence and rationalization above, the sixth hypothesis for the portfolio turnover is as follows.

H6: Portfolio turnover has a positive significant impact on Islamic Equity Funds’ performance

Based on the concept built before, we can construct the theoretical framework of this study, which is given in the Figure 1.

![Figure 1. Conceptual Framework of The Study](image)

**Methods**

**Data**

This research involves quantitative statistical analysis. According to Punch III et. al (1993) cited by Syahrum & Salim (2012), quantitative research is a systemic analysis of phenomena using quantifiable data and statistical, mathematical, or computational tools. This study was used empirical data and analyzed by panel data regression and the result is expected could provide any evidence related to which instruments effectively affecting the Islamic Equity Funds performance. This research’s data were obtained from the prospectus of Islamic Equity Funds as well as official websites such as BPS (Statistics Indonesia), BI (Central Bank of Indonesia), Pasar Dana, and Financial Service Authority. Overall, this research involved panel data and the E-Views 9 software package was used for analysis. Also, this study occupied the population from Islamic Equity Funds registered on the Indonesian Stock Exchange (IDX). Equity funds are a good choice for investors because they have a higher potential for investment value who understand the risks as well as the potential for larger investment value increases (Zouaoui, 2019).

The secondary data obtained from the annual report of Islamic Equity Funds published by the Financial Service Authority (OJK). The research sample is selected using the purposive sampling method. According to Suharyadi (2016), purposive Sampling is defined as a method of selecting a sample based on certain considerations and focusing on a specific purpose.

**Variable Measurement**

Islamic Equity Funds performance is measured using the Sharpe ratio. Sharpe ratio, as opposed to the systematic risk represented by a beta factor, quantifies the overall risk of a portfolio using standard deviation. Sharpe proposed the reward-to-variability ratio (Kabir, 2017). This ratio effectively shows the risk premium return on total risk per unit of risk.

The formula is as follows:

\[
\text{Sharpe Ratio} = \frac{R_p - R_f}{\sigma_p}
\]

Where:

- \(R_p\) = return of the portfolio
- \(R_f\) = risk-free rate
- \(\sigma_p\) = standard deviation of the portfolio’s excess return
Stock Selection Skill and Market Timing Ability

Alexandri (2015) argued that stock selection skill refers to an investment manager’s ability to choose and construct a portfolio of assets that are projected to produce future returns. Ramayanti & Purnamasari (2018) explained that market timing ability refers to the ability of investment managers to make adjustments for asset portfolios to anticipate changes or movements in general market prices. The formula is as follows:

\[ R_p - R_f = \alpha + \beta_1(R_m - R_f) + \beta_2(R_m - R_f)^2 + \varepsilon \]

Where:
- \( R_p \) = Return on portfolio
- \( R_m \) = Return from the stock market.
- \( R_f \) = Return for risk-free assets.
- \( \alpha \) = Intercept which is an indication of stock selection skill
- \( \beta_1 \) = Excess market return or slope regression coefficient when the market is down (bearish);
- \( \beta_2 \) = Regression coefficient which is an indication of the market timing ability
- \( \varepsilon \) = random error

Fund Age

To account for the influence of fund age on performance, all models contain a variable fund age that is calculated through research periods minus inception date (in years) (Ringov, 2017). Newer funds may experience much greater costs during their inception period, fund age may have a factor in determining performance. This is because of the marketing costs, as well as the fact that the first cash flows will put a heavier strain on the funds’ transaction costs. (Asad & Siddiqui, 2019).

The formula is as follows:

\[ \text{Fund age} = R_{ep} - I_d \]

Where:
- \( R_{ep} \) = Research Period
- \( I_d \) = Inception Date

Fund Size

Equity Fund wealth can be recognized by Net Asset Value (NAV). The larger the company's economies of scale, the more the size of the company (Boo et al., 2017). Fund size is taken from financial statements within the annual prospectus of Islamic Equity Funds.

\[ \text{Fund size} = \ln(NAV) \]

Where:
- \( NAV \) = Net Asset Value
- \( \ln \) = Log Natural

Expense Ratio

According to Rao et al., (2017), Livingston et al., (2019), and Maftukhah (2020), equity funds are classified into three types of fees to be paid: The first is the management fee paid to investment advisors. The second is costs other than administrative costs originating from record provisions keeping and transaction services to shareholders. The third is the cost known as the 12-b fee which is a regulation issued by the Securities Exchange Commission (SEC) which regulates the costs allocated to advertising, marketing, and distribution services. The expense ratio compares equity funds’ operational costs to the total expense handled. This ratio compares the annual expenses incurred by investors. (Nguyen et al., 2018).

\[ \text{Expense ratio} = \frac{TE}{NAV} \]

Where:
- \( TE \) = Total Expense
- \( t \) = Periods
- \( NAV \) = Net Asset Value
- \( N \) = Number of periods
Portfolio turnover

Portfolio turnover measures the level of activity of investment managers in buying and selling assets which can describe changes in portfolio content as an effort to anticipate market changes (Devi & Sudirman, 2021). Portfolio turnover is measured by the smallest assets purchased and sold in comparison to average net asset values (Marzuki & Worthington, 2015).

\[
\text{Portfolio turnover} = \frac{\min(\text{Ag}_{\text{buys}} \text{ or } \text{Ag}_{\text{sells}})}{\text{NAV}} \quad (\text{Borochin & Yang, 2017})
\]

Where:
- \(\text{Min}\) = minimum
- \(\text{Ag}_{\text{buys}}\) = Average of buying portfolio
- \(\text{Ag}_{\text{sells}}\) = Average of selling portfolio
- \(\text{NAV}\) = Net Asset Value

Model Development

The model developed in this study is as follows

\[
y(SR)_{it} = \beta_0 + \beta_1X_1(SS)_{it} + \beta_2X_2(MT)_{it} + \beta_3X_3(Age)_{it} + \beta_4X_4(\text{Size})_{it} + \beta_5X_5(ER)_{it} + \beta_6X_6(TR)_{it} + \epsilon_{it}
\]

Where:
- \(SR\) = Sharpe Ratio (Islamic Equity Funds performance)
- \(SS\) = Stock Selection Skill
- \(MT\) = Market Timing Ability
- \(AGE\) = Fund Age
- \(SIZE\) = Fund Size
- \(ER\) = Expense Ratio
- \(TR\) = Portfolio turnover
- \(\epsilon\) = random error

Data Analysis Method

Basuki & Prawoto (2016) explained that panel data regression is a form of regression that makes use of a panel or data pool made up of time series and cross-section data. The panel regression process needs to go through all of the phases of obtaining the best model estimate. The panel data model should be estimated in three ways: the common effect model, the fixed effect model, and the random effect model. These are used to choose the optimal model for panel data regression. The tests used to identify those three models are Chow test, Hausman test, and Lagrange Multiplier Test.

Then, according to Winarno (2015), the coefficient of determination \((R^2)\) is a metric used to assess the appropriateness or correctness of the relationship between the independent and dependent variables in a regression equation. The value of the coefficient of determination ranges from 0 to close to 1. The T statistic test is used to determine whether or not an independent variable influences the dependent variable. Deciding with a significance level of \(\alpha = 0.05\). If the significance level \(t\) is more than 0.05, \(H_0\) is accepted; if the significance level \(t\) is less than 0.05, \(H_0\) is rejected (\(H_1\) is accepted) (Winarno, 2015).

Result

Descriptive Statistics

Descriptive statistics is the analysis to describe the data phenomena comprising mean, maximum, minimum, and standard deviation (Basuki & Prawoto, 2016). In other words, descriptive statistics are used to understand the data distribution characteristics. The following table shows panel data statistics from the entire sample of this study with total of 90 observations consisting of 15 investment managers within 6 years.

| Table 1 | displays the various variable descriptions utilized in this investigation. Islamic Equity Funds performance which is measured by Sharpe Ratio obtain a mean value of about -0.188078, median -0.131706, the maximum value 0.923174, the minimum value -4.049849, and the standard deviation about 0.513036. With this result, it is clear that the best performance of Islamic Equity Funds in this research period was recorded at 0.923174. Stock selection skill which is measured using Treynor-
Mazuy ratio, shows that the capacity of investment managers of Islamic Equity Funds to select assets to create a portfolio that is projected to produce the expected return in the future varies across the 2015-2020 timeframe. Market timing ability which was also measured using the Treynor-Mazuy ratio, suggests that Islamic Equity Funds in Indonesia have a substantial difference in their capacity to select the optimal moment to acquire or sell stocks and shares from an Islamic Equity Funds portfolio. The expense ratio which is seized from the prospectus of each Islamic Equity Funds, indicates that the expense ratio of Islamic Equity Funds in Indonesia has various percentages. In general, the higher the expense ratio obtained, the higher the costs will affect the Islamic Equity Fund’s performance. Moreover, portfolio turnover is the most appropriate indicator in measuring the aggressiveness of equity fund management by the Investment Manager. The greater the portfolio turnover indicates the more aggressive portfolio management by the Investment Manager and vice versa.

<table>
<thead>
<tr>
<th>Table 1. Descriptive Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sharpe Ratio</td>
</tr>
<tr>
<td>Mean</td>
</tr>
<tr>
<td>Median</td>
</tr>
<tr>
<td>Max.</td>
</tr>
<tr>
<td>Min.</td>
</tr>
<tr>
<td>Std. Dev.</td>
</tr>
<tr>
<td>Skewness</td>
</tr>
<tr>
<td>Kurtosis</td>
</tr>
<tr>
<td>Observe</td>
</tr>
</tbody>
</table>

**Panel Data Regression Estimation Model**

Before doing the Hausman test, the Chow test was used to select an appropriate model from the Fixed Effect Model (FEM) and the Common Effect Model (CEM). The following hypotheses were tested:

\[ H_0: \text{Common Effect} \]
\[ H_1: \text{Fixed Effect} \]

If \( H_1 \) is accepted and the probability value is less than 0.05, the fixed effect model (FEM) is the appropriate model to use. If the probability value is greater than 0.05, \( H_1 \) is rejected, and the common effect model (CEM) is the best alternative. The results of the likelihood ratio test to determine whether to employ a fixed effect model or a common effect model are shown in the table below:

<table>
<thead>
<tr>
<th>Table 2. Results of Likelihood Ratio Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effects Test</td>
</tr>
<tr>
<td>Cross-section F</td>
</tr>
<tr>
<td>Cross-section Chi-square</td>
</tr>
</tbody>
</table>

Based on the likelihood ratio test findings, the probability value of cross-section F is greater than 0.05, implying that the common effects model (CEM) is the appropriate model to use for this research. Because the common effect model is the appropriate model for this research, the Hausman test is not examined (Basuki & Prawoto, 2016).

The correlation coefficient between the independent variables can be used to detect multicollinearity. If the correlation coefficient value is < 0.8, it can be concluded that there is no multicollinearity (Gujarati, 2009). According to table 3, the result of the correlation coefficient value indicates that there is no variable with a correlation value more than 0.8 so it can be concluded that multicollinearity problems are not detected.
Table 3. Results of Multicolleration Test

<table>
<thead>
<tr>
<th></th>
<th>Stock Selection Skill</th>
<th>Market Timing Ability</th>
<th>Fund Age</th>
<th>Fund Size</th>
<th>Expense Ratio</th>
<th>Portfolio Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock Selection Skill</td>
<td>1.000000</td>
<td>-0.109105</td>
<td>0.070723</td>
<td>0.021539</td>
<td>-0.087235</td>
<td>-0.073749</td>
</tr>
<tr>
<td>Market Timing Ability</td>
<td>-0.109105</td>
<td>1.000000</td>
<td>0.140152</td>
<td>0.066497</td>
<td>0.099898</td>
<td>0.090836</td>
</tr>
<tr>
<td>Fund Age</td>
<td></td>
<td></td>
<td>1.000000</td>
<td>0.262925</td>
<td>0.035998</td>
<td>0.262504</td>
</tr>
<tr>
<td>Fund Size</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-0.252884</td>
</tr>
<tr>
<td>Expense Ratio</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-0.208272</td>
<td>0.633840</td>
</tr>
<tr>
<td>Portfolio Turnover</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Heteroskedasticity test determines whether there is a variance inequality between the residuals of one observation and the residuals of another observation in the regression model. White heteroskedasticity-consistent standard errors and covariance can be used to calculate the Heteroskedasticity test. White (1980) proposed a test for heteroskedasticity of unknown form using the matrix approximation as a starting point. The following table shows the result of heteroskedasticity-consistent standard errors & covariance:

Table 4. Results of White Heteroskedasticity-Consistent Standard Error & Covariance

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>0.139586</td>
<td>0.099254</td>
<td>1.406360</td>
<td>0.1634</td>
</tr>
<tr>
<td>Stock Selection Skill</td>
<td>-0.238550</td>
<td>0.675288</td>
<td>-0.353257</td>
<td>0.7248</td>
</tr>
<tr>
<td>Market Timing Ability</td>
<td>-1.69E-05</td>
<td>7.60E-05</td>
<td>-0.221678</td>
<td>0.8251</td>
</tr>
<tr>
<td>Fund Age</td>
<td>-0.012397</td>
<td>0.012197</td>
<td>-1.016398</td>
<td>0.3124</td>
</tr>
<tr>
<td>Fund Size</td>
<td>2.91E-14</td>
<td>8.91E-14</td>
<td>0.327088</td>
<td>0.7444</td>
</tr>
<tr>
<td>Expense Ratio</td>
<td>0.693813</td>
<td>2.644994</td>
<td>0.262312</td>
<td>0.7937</td>
</tr>
<tr>
<td>Portfolio Turnover</td>
<td>0.120442</td>
<td>0.081148</td>
<td>1.484222</td>
<td>0.1415</td>
</tr>
</tbody>
</table>

According to table 4, the result of heteroskedasticity-consistent standard errors & covariance indicates that there is no variable with a probability value less than the level of significance (0.05). So, it can be concluded that heteroskedasticity problems are not detected.

Adjusted \(R^2\) Square

According to Winarno (2015), the coefficient of determination \(R^2\) is a metric used to assess the appropriateness or correctness of the relationship between the independent and dependent variables in a regression equation. The value of the coefficient of determination ranges from 0 to close to 1.

Table 5. Coefficient of Determination Test Results

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>R-squared</td>
<td>0.165329</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.104991</td>
</tr>
</tbody>
</table>

The obtained coefficient of determination is 0.165329. This indicates that the sum of all independent variables' contributions to explaining the dependent variable is 16.5 percent. It may be inferred that the remaining 83.5% is explained by factors outside of the model. This result is due to the limited data used, causing many variables to be insignificant so that the Adjusted Square \(R^2\) value is low.

T-Statistic Test

The T-test statistic was used to see if the independent factors could explain and affect the dependent variable (Winarno, 2015). Independent variables are considered to be significant if the probability value is less than the significance threshold, which is less than or equal to 0.05.
Table 6. T-Statistic Test Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-0.349873</td>
<td>0.210682</td>
<td>-1.660668</td>
<td>0.1006</td>
</tr>
<tr>
<td>Stock Selection Skill</td>
<td>1.216197</td>
<td>0.469124</td>
<td>2.592485</td>
<td>0.0113</td>
</tr>
<tr>
<td>Market Timing Ability</td>
<td>-1.86E-05</td>
<td>0.000307</td>
<td>-0.060596</td>
<td>0.9518</td>
</tr>
<tr>
<td>Fund Age</td>
<td>-0.002430</td>
<td>0.017360</td>
<td>-0.139974</td>
<td>0.8890</td>
</tr>
<tr>
<td>Fund Size</td>
<td>7.85E-14</td>
<td>2.05E-13</td>
<td>0.382665</td>
<td>0.7029</td>
</tr>
<tr>
<td>Expense Ratio</td>
<td>9.249924</td>
<td>4.500161</td>
<td>2.055465</td>
<td>0.0430</td>
</tr>
<tr>
<td>Portfolio Turnover</td>
<td>-0.130467</td>
<td>0.047449</td>
<td>-2.749639</td>
<td>0.0073</td>
</tr>
</tbody>
</table>

Table 6 shows the t-test result in this research. According to the estimation of the t-test through the Common Effect Model, not all hypotheses are empirically supported. Only three variables are significant with the probability value less than 0,05, there are stock selection skill towards Islamic Equity Funds performance with probability value 0,0113, expense ratio towards Islamic Equity Funds performance with probability value 0,043, and portfolio turnover towards Islamic Equity Funds performance with probability value 0,0073.

Robustness Test

To further substantiate the findings on Islamic Equity Funds’ performance, as well as to provide more light on the issues under consideration, we perform additional analyses. We employ the Treynor Ratio developed by Treynor (1965) which calculates the excess return above the risk-free investment for each unit of market risk and calculates risk-adjusted return based on systematic risk. It is an alternative ratio to measure Equity Funds’ performance.

\[
\text{Treynor Ratio} = \frac{R_P - R_f}{\beta}
\]

Where:

- \( R_P \) = return of the portfolio
- \( R_f \) = risk-free rate
- \( \beta \) = Beta or the systematic risk of the portfolio.

The results are presented in Table 7.

Table 7. T-Statistic Test Results Using Treynor Ratio

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-0.012159</td>
<td>0.043138</td>
<td>-0.281854</td>
<td>0.7788</td>
</tr>
<tr>
<td>Stock Selection Skill</td>
<td>-0.195449</td>
<td>0.075796</td>
<td>-2.578608</td>
<td>0.0117</td>
</tr>
<tr>
<td>Market Timing Ability</td>
<td>-7.59E-05</td>
<td>4.97E-05</td>
<td>-1.528678</td>
<td>0.1301</td>
</tr>
<tr>
<td>Fund Age</td>
<td>0.004943</td>
<td>0.003441</td>
<td>1.436498</td>
<td>0.1546</td>
</tr>
<tr>
<td>Fund Size</td>
<td>-7.72E-15</td>
<td>4.25E-14</td>
<td>-0.181900</td>
<td>0.8561</td>
</tr>
<tr>
<td>Expense Ratio</td>
<td>-0.091942</td>
<td>0.831351</td>
<td>-0.110593</td>
<td>0.9122</td>
</tr>
<tr>
<td>Portfolio Turnover</td>
<td>-0.007615</td>
<td>0.008406</td>
<td>-0.905848</td>
<td>0.3676</td>
</tr>
</tbody>
</table>

According to table 7, the results reconfirm that stock selection skill has a significant impact on Islamic Equity Funds’ performance. In agreement with the original result, the coefficient of market timing ability and portfolio turnover revealed negative. Otherwise, the coefficient of expense ratio revealed a negative and insignificant effect on Islamic Equity Funds’ performance. While there are a few dissimilarities, the results, in general, do not upend the previous finding.

Discussion

Panel data regression analysis aims to determine the effect of Stock Selection Skill, Market Timing Ability, funds age, funds size, expense ratio, and portfolio turnover partially towards the performance of Islamic Equity Funds in Indonesia. The finding suggests that stock selection skill has a positive significant impact on the performance of Islamic Equity Funds is accepted. This study is in line with the research conducted by, Omri et al., (2019) and Zouaoui (2019) who denoted that Islamic Equity
performance. This finding is a. This seems to be. This suggests that the size of the equity fund has no impact on the investment manager's and these results support research conducted by research results of has a negative significant effect on Islamic Equity Funds. Also, the result shows that there is no significant impact between size and performance. The second result shows that market timing ability has no significant effect on the Islamic Equity Funds Performance. Therefore, a hypothesis that proposed market timing ability has a positive significant impact on the performance of Islamic Equity Funds is rejected. This study is related to the work of Ahsraf (2013) and Zouaoui (2019) who conducted a study regarding market timing ability performance of Islamic Equity Funds by using the Treynor-Mazuy model. The finding of this study is contrary to the previous study conducted by Mansor et al., (2015), Merti et al., (2017), and Pillbeam & Preston (2019) where those research indicated that market timing ability has a positive significant effect on the Islamic Equity Funds performance. Market timing ability has an impact on the success of equity funds since it is a direct method to learn about the portfolio management tactics used by investment managers (Rao et al., 2017). Besides, it supports research carried out by Gusni et al., (2018) and Juniar & Rachmah (2018) who found that market timing ability has no significant effect on Islamic Equity Funds performance in Indonesia. Fundamentally, the investment managers of Islamic Equity Funds in Indonesia not only optimize return (yield) but also ensure that the transactions are conducted following Sharia compliance. As a result of this potential, market timing theory is believed to be difficult to apply to Islamic Equity Funds (Anita, 2013). This irrelevance of investment managers’ timing abilities may be ascribed to the fact that the flow of funds to Islamic Equity Funds is consistent since investors are less sensitive to market performance and selection skills of investment managers with a long-term perspective (Ashraf, 2013).

This study also indicates that the fund age has a negative and insignificant influence on the performance of Islamic Equity Funds. The results of this study are in line with the opinion of Bai et al., (2019), equity funds with a longer lifespan will have a longer track record, then it will be able to give a better performance for its investors. The age of the equity fund reflects the experience of the manager's investment in managing the equity fund. The longer the age of the equity fund, the investment manager will be more experienced in managing the portfolio (Bani Atta & Marzuki, 2019). This seems to be consistent with the findings of Asad and Siddiqui (2019), who discovered that fund age had a positive result on equity fund performance. Fund age is indeed important, however, that does not mean that equity funds that have a long life will always be better than new equity funds. Therefore, previous performance by investment managers of Islamic Equity Funds is not a guarantee that it will be reproduced in the future. As a result, the idea that suggested fund age having a beneficial influence on Islamic Equity Fund performance is denied.

Other result shows that fund size has no significant effect on the Islamic Equity Funds Performance. This study is in line with the opinion of Nguyen et al., (2018), who explained that fund size is defined as the amount size of assets of Islamic Equity Funds. It will provide flexibility, increase bargaining power and facilitate the creation of economic scale which can impact on reducing costs in case of impact positively on equity funds’ performance. The larger the asset is managed, the more flexibility, bargaining power, and the ease with which economies of scale may be created resulting in cost savings and generated negative influence on equity performance (Bai et al., 2019). However, the result of this study revealed a positive effect between fund size towards Islamic Equity Funds’ performance. Instead of the result shows that there is no significant impact between size and performance. This finding is contrary to Chen Lai (2014), Kaur (2018), and Rokhim & Octaviani (2019), who found that fund size has a negative significant effect on Islamic Equity Funds. Also, the results of this study contradict the research results of Dharmastuti & Dwiprakasa (2017), and Asriwahyun (2017). On the other hand, these results support research conducted by Hermawan & Wiagustini (2016), Phillipps, et al., (2018), and Gusni et al. (2018) who concluded that the size of a fund has no direct impact on equity funds’ performance. This suggests that the size of the equity fund has no impact on the investment manager's
success in managing the equity fund, and so instead of neither or nor. Because of this minor effect, the equity fund’s size cannot be utilized as a guide for investors considering equities funds. Based on the results shown above, it can be inferred that large funds tend to not correlate with higher performance, it is possible to conclude that the performance of an Islamic Equity Fund does not always correlate with a large size, but it could be the result of a large investment activity well planned and executed by the investment manager so that people trust their funds. Therefore, it is possible that equity funds which have a small net asset value can produce a good performance. As a result, the hypothesis that proposed fund size has a negative substantial influence on Islamic Equity Fund performance is rejected.

This finding also suggests that the expense ratio has a favorable and significant impact on the performance of Islamic equity funds. This study is in line with the research conducted by Rehan (2020) who explained the role of expense ratio in the way to cultivate the returns on investment of Islamic Equity Funds. An equity fund's expense ratio indicates how much it pays for portfolio management, administration, marketing, and distribution, among other things (Naveed, Khawaja, et al., 2020). The lower the expense ratio, the more efficient and effective the Investment Manager is in carrying out its duties as an investment manager of equity funds (Sukmaningrum et al., 2016). Besides, the result supports research carried out by Marzuki & Worthington (2015) who discovered a strong positive connection between fund costs and fund performance in both conventional and Islamic Equity Funds and confirm research written by Nguyen et al., (2018) who stated that expense ratio had a statistically positive significant impact on equity fund performance. As a result, the hypothesis that suggested expense ratio has a positive influence on the performance of Islamic Equity Funds is accepted.

The other finding suggests that the portfolio turnover has a negative and significant impact on the performance of Islamic Equity Funds. This study is aligned with the research ideas from Livingston et al., (2019) who mentioned that equity funds with more active strategies and greater turnover rates have significantly wider performance than equity funds with lower portfolio turnovers or more passive methods. The high portfolio turnover might be regarded by investment managers as a sign of their efforts to add value to the fund’s portfolio by spotting undervalued or overvalued assets and making market timing purchase and sell decisions (El-Masry et.al, 2016). Also, this result of this study is contrary to the research conducted by Kiymaz (2018), Kaur (2018), and Da Silva et al., (2020) who discovered that portfolio turnover has a major influence on the performance of equity funds. Besides, it supports research carried out by Carhart (1997) and Wu (2014) about the portfolio turnover has a negative and considerable influence on equity fund performance. Also, Rao (2011) and Satrio & Mahfud (2016) found that portfolio turnover has a negative influence and is not statistically significant. Equity fund performance is strongly and negatively connected to equity fund expense and portfolio turnover. According to Carhart (1997), refers to their research, portfolio turnover has a negative significant influence on equity funds’ performance. Wu (2014) discovered that equity funds with a greater turnover and fee ratio have poorer fund returns.

Moreover, the study discovered that underperforming funds had a greater portfolio turnover, implying that turnover is one of the deciding factors in fund performance. Furthermore, high turnover funds have the highest expenditure, while low turnover funds have the lowest. Rao (2011) proposed that increasing the portfolio turnover would result in improved fund performance, suggesting that large portfolio turnover percentages do not always boost fund performance over a lengthy period. According to Chow et al., (2011) the larger the turnover, the better the performance. However, turnover has a substantial negative impact on performance in the portfolio with the lowest performance. That is, the larger the turnover, the worse the performance of the lowest-performing stock funds. This indicates that for low-performance fund managers, more trading means moving from bad to worse. Also, Satrio & Mahfud (2016) argued that portfolio turnover arise more costs from the activity of buying and selling portfolios managed by investment managers. The more investment-making transactions, the higher the turnover rate and will appear. In the end, the turnover fee will have a significant effect on the potential profit of the funds invested. As a result, the hypothesis that the suggested portfolio turnover has a beneficial influence on Islamic Equity Fund performance is rejected (H6 is not supported).

Conclusion
According to the overall result of this study, it can be concluded that every investor has a similar objective of investment such as maximum returns, risk exposure, return on investment, and capital cost. As a result, the return on investment can differ significantly from the return in the market and can differ
based on the investor’s area. The investment managers always covering some decisions in managing their funds that affect simultaneously investors' behavior to do an investment in Islamic Equity Funds. The diversity of financial assets in a portfolio is referred to as portfolio diversification (bank deposits, savings certificates, treasury bills, stocks, bonds, equity funds). Then, it can be concluded that Islamic Equity Funds is a diversified portfolio of financial assets. Islamic Equity Funds with a considerably greater portfolio concentration, both across and within industries, tend to have a lot higher portfolio concentration. Investment managers managing client funds to invest in portfolios need to know the risks and returns of their clients. Diversifying the portfolio of an equity fund will reduce risk because the investment managers must deviate from Net Asset Value (NAV) in various types of securities.

A systematic approach is required to reduce risk and, to the greatest extent possible, eliminate the negative impact that emotion, behavior, and excessive fees and taxes have on overall investment performance, while also defining how investment opportunities and investment managers will be identified. The capital Asset Pricing Model (CAPM) is related to the Treynor-Mazuy ratio. Whereas the Treynor-Mazuy model needs Exceed Portfolio Return (EPR) and Excess Market Return (ERM) which are adopted from CAPM. Also, CAPM has a relationship in terms of Sharpe ratio which describes the relationship between systematic risk and expected return for assets, particularly stocks. CAPM is widely used throughout finance for pricing risky securities and generating expected returns for assets given the risk of those assets and cost of capital. In case, the Sharpe ratio is similar to the Treynor ratio that calculates the risk premium per unit of total risk. However, it employs portfolio total risk instead of systematic risk. Market timing ability affects the performance of Islamic Equity Funds because it is a direct way to find out what portfolio strategies are being applied by investment managers. This irrelevance of investment managers’ timing abilities may be ascribed to the fact that the flow of funds to Islamic Equity Funds is consistent since investors are less sensitive to market performance and selection skills of investment managers with a long-term perspective. Equity funds with a longer lifespan will have a longer track record, then it will be able to give a better performance for its investors. The longer age of equity funds, the more experienced investment manager in managing a portfolio. Fund age is indeed important; however, it does not mean that equity funds that have a long life will always be better than new equity funds.

In this study, the Net Asset Value of a fund is used to determine the fund size. of Islamic Equity Funds. It will provide flexibility, increase bargaining power and facilitate the creation of economic scale which can impact on reducing costs in case of impact positively on equity funds’ performance. According to the findings of this study, the performance of Islamic Equity Funds is unaffected by fund size. A great performance does not always mean that the Islamic Equity Funds must have a large size, but it could be the result of well plan activity and execution by the investment managers. As a result, there is a chance that equity funds with a low net asset value can outperform. Based on the result of this study, the expense ratio affects Islamic Equity Funds' performance. It can be inferred that the expense ratio of an equity fund reflects how much it pays for portfolio management, administration, marketing, and distribution, among other things. The lower the expense ratio, the more efficient and effective the Investment Manager is in carrying out its duties as an investment manager of equity funds. Islamic Equity Funds with more active strategies and greater portfolio turnovers have significantly wider performance than equity funds with lower portfolio turnovers. The high portfolio turnover might be regarded by investment managers as a sign of their efforts to add value to the fund’s portfolio. The more investment managers turnover the transactions, the higher the turnover fee will appear. In the end, the turnover fee will have a negative significant effect on the potential profit of the funds invested.

Some insights that are useful for further study, as well as recommendations for investment managers, are listed: For the Islamic Equity Funds investment managers, this study's conclusions can be mentioned in scholarly evaluations on the elements impacting the performance of Islamic Equity Funds. This study can provide a result for stock selection skills and market timing ability using the Treynor-Mazuy ratio, but there is still room for improvement and deepening. Hopefully, further study can examine the determinant analysis of Islamic Equity Funds performance using Jensen’s Alpha ratio and Treynor ratio. To provide another result of determinant analysis of Islamic Equity Funds, measuring stock selection skill and market timing ability can be used Henriksson model (1984). Able to try measure portfolio turnover using Modified Portfolio Turnover and capable of researching other forms of Islamic Equity Funds such as Islamic Money Market Funds, Fixed Income Islamic Equity Funds, Mixed Islamic Equity
Funds, Islamic Indexed Funds, Sukuk Equity Funds, Protected Islamic Equity Funds, Islamic Equity Funds based on foreign Islamic securities, etc.

References
https://doi.org/10.1016/j.ribaf.2014.10.004


umur reksa dana terhadap kinerja reksa dana (Doctoral dissertation, Udayana University).


https://doi.org/10.1080/00036846.2018.1529403


