

# **Does Islamic Investing Cost?**

## **Comparing the Performance of Conventional, Islamic and Socially- Responsible Indices**

**Kavi Chawla, Josanco Floreani, Jeffrey Kappen, Matthew Mitchell &  
Andrea Paltrinieri**

# Research Questions

## **The research addresses three main research questions:**

1. Are there differences in overall return performance among Islamic, conventional, and SRI assets?
2. To what extent are the performance of Islamic, conventional, and socially-responsible assets correlated?
3. Is there a performance penalty to investing in Islamic indices during a crisis?

# Sample & Methodology

**Period:** 2005-2015

## **Sample**

- 125 indices from markets across the world
- Providers: MSCI & Dow Jones

## **Data**

- Frequency: weekly data
- Data Points:
  - Returns
  - Volatility
  - Index Fundamentals: price-to-book value, price-to-earnings ratio and price-to-sales ratio

# Analysis

- First we analyzed the performance of each asset class aggregated across all regions
- Second we performed head-to-head comparisons of conventional, Islamic and SRI indices within and across selected regions
- Third, we conducted a correlation analysis between asset classes
- Finally, we carried out the same set of performance analyses during financial crisis:
  - Crisis 1: the U.S. subprime crisis, 2008 to 2009
  - Crisis 2: the European debt crisis, 2011-2012

# Comparative Performance: Overall

	MSCI					DOW JONES				
	Return	Vola	PE	PBV	PS	Return	Vola	PE	PBV	PS
<b>ISLAMIC</b>										
Mean	0.08%	20.373	18.529	1.714	1.335	0.10%	18.264	17.499	2.465	1.747
Median	0.19%	16.815	14.898	1.721	1.109	0.00%	15.26	17.684	2.398	1.692
<b>CONVENTIONAL</b>										
Mean	0.15%	18.187	50.596	1.747	1.445	0.12%	16.908	21.067	1.726	1.593
Median	0.00%	14.98	15.288	1.702	1.193	0.00%	14.165	15.402	1.564	1.053
<b>SRI/SUSTAINABILITY</b>										
Mean	0.10%	17.989	18.123	2.121	1.411	0.12%	17.58	464.201	122.651	60.16
Median	0.00%	15.03	18	1.967	1.361	0.00%	15	17.166	1.723	1.168



- Mean total returns of conventional and SRI indices outperformed Islamic ones
- SRI: better fundamentals



- In general, SRI outperformed both conventional and Islamic assets, though...
- ...Islamic PE and PBV multiples were mixed

Source: Bloomberg database and Thomson Reuters Eikon database

# Comparative Correlations: MSCI

## ISLAMIC

	MIAPJ Index	MIEF Index	MIUS Index	MIER Index	MIAE Index	MIWO Index
MIAPJ Index	1					
MIEF Index	0.9551*	1				
MIUS Index	0.7397*	0.7635*	1			
MIER Index	0.8155*	0.8542*	0.8428*	1		
MIAE Index	0.2467*	0.2181*	0.1889*	0.2082*	1	
MIWO Index	0.8344*	0.8575*	0.9498*	0.9486*	0.2097*	1

## CONVENTIONAL

	MXAPJ Index	MXEF Index	MXUS Index	MSELE18 Index	MXAE Index	MXWO Index
MXAPJ Index	1					
MXEF Index	0.9508*	1				
MXUS Index	0.7078*	0.7438*	1			
MSELE18 Index	0.7640*	0.7959*	0.8624*	1		
MXAE Index	0.2465*	0.2049*	0.2004*	0.2271*	1	
MXWO Index	0.8213*	0.8433*	0.9427*	0.9237*	0.2258*	1

## SRI

	M2PCJSI Index	M2CXJPE Index	M5USSI Index	M5EUSI Index	M5WOSOCR Index
M2PCJSI Index	1				
M2CXJPE Index	-	-			
M5USSI Index	0.7079*	-	1		
M5EUSI Index	0.7773*	-	0.8482*	1	
M5WOSOCR Index	0.7996*	-	0.9477*	0.9424*	1

Source: Bloomberg database and Thomson Reuters Eikon database

# Comparative Correlations: DJ

## ISLAMIC

	DJAP Index	DJIEU Index	IMUS Index	DJIEMG Index	DJIAEL Index	DJIM Index
DJAP Index	-					
DJIEU Index	-	1				
IMUS Index	-	0.8360*	1			
DJIEMG Index	-	0.8327*	0.7470*	1		
DJIAEL Index	-	-	-	-	-	
DJIM Index	-	0.9337*	0.9481*	0.8604*	-	1

## CONVENTIONAL

	DWAP Index	DWEU Index	DWCF Index	W5DOW Index	DJARB50 Index	W1DOW Index
DWAP Index	1					
DWEU Index	0.7774*	1				
DWCF Index	0.6788*	0.8304*	1			
W5DOW Index	0.8637*	0.8455*	0.7531*	1		
DJARB50 Index	0.3738*	0.3424*	0.2570*	0.3293*	1	
W1DOW Index	0.8381*	0.9410*	0.9339*	0.8773*	0.3350*	1

## SRI

	P1SUS Index	DJSEUXAT Index	AASGI Index	DJSEMDUT Index	W1XTO Index
P1SUS Index	1				
DJSEUXAT Index	0.6887*	1			
AASGI Index	0.6610*	0.8356*	1		
DJSEMDUT Index	0.6880*	0.6198*	0.6237*	1	
W1XTO Index	0.8061*	0.9030*	0.8905*	0.7342*	1

Source: Bloomberg database and Thomson Reuters Eikon database

# Subprime Crisis: Performance

	MSCI					DOW JONES				
	Return	Vola	PE	PBV	PS	Return	Vola	PE	PBV	PS
<b>ISLAMIC</b>										
Mean	-1.09%	34.66	12.34	2.03	1.24	-1.20%	34.50	12.06	2.22	1.24
Median	-0.83%	25.00	12.86	2.05	1.14	-1.00%	26.29	12.68	2.31	1.30
<b>CONVENTIONAL</b>										
Mean	-1.17%	33.66	12.96	1.88	1.41	-1.02%	31.59	14.92	2.81	4.07
Median	-1.00%	25.31	13.48	1.90	1.17	-1.00%	23.91	16.28	3.04	4.27
<b>SRI/SUSTAINABILITY</b>										
Mean	-0.84%	31.75				-0.99%	32.62	1220.02	420.20	250.96
Median	-1.00%	24.73				-1.00%	25.14	16.61	1.78	0.96

**During the Subprime crisis, the performance across the three groups was similar.**

*Source: Bloomberg database and Thomson Reuters Eikon database*



# European Crisis: Performance

	MSCI					DOW JONES				
	Return	Vola	PE	PBV	PS	Return	Vola	PE	PBV	PS
<b>ISLAMIC</b>										
Mean	-0.20%	21.088	26.696	1.629	1.268	-0.26%	22.041	13.662	2.158	1.51
Median	-0.16%	18.035	13.617	1.709	1.115	0.00%	20.1	13.531	2.116	1.572
<b>CONVENTIONAL</b>										
Mean	-0.21%	20.205	214.268	1.51	1.234	-0.23%	19.699	12.614	1.659	1.452
Median	0.00%	16.84	13.657	1.556	1.110	0.00%	17.02	13.148	1.671	1.257
<b>SRI/SUSTAINABILITY</b>										
Mean	-0.10%	19.341	-	-	-	-0.21%	20.62	557.372	181.669	101.559
Median	0.00%	16.82	-	-	-	0.00%	17.04	15.274	1.543	1.258

**During the European crisis, the mean returns among the Islamic indices were quite similar to those observed in the conventional markets.**

*Source: Bloomberg database and Thomson Reuters Eikon database*

# Summary Remarks

**There were five main findings from our research into performance and correlation comparisons between conventional, Islamic and SRI indices:**

1. There was variation in historical performance across the three index groupings
2. There was no significant penalty for investing in Islamic or SRI funds neither during the overall period (2005-2015) nor during periods of crisis (2008-2009, 2011-2012)
3. Islamic and SRI funds can offer an effective strategy for conventional investors to reduce overall risk within their portfolios
4. Overall, we see fairly low and diminishing correlations between the index groupings over the period, especially in the case of frontier Islamic indices

## **5. Islamic investing *doesn't* cost**

Research Collaboration by :

