

Performance Evaluation of South African Islamic and Conventional Funds during the COVID-19 Crisis

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Abstract

Purpose of the Study: This research paper aims to evaluate the performance of South African Islamic funds within the context of the COVID-19 pandemic by using the daily prices of 22 South African Islamic and conventional funds from 31 December 2018 to 28 February 2023. Due to the ethical screening processes of Islamic funds, the study hypothesises that there should be a plausible and clear distinction between the performance of Islamic funds vis-à-vis conventional funds during COVID-19 and non-COVID-19 periods.

Design / Methodology / Approach: In order to test this hypothesis, the study adopted both absolute and relative risk-adjusted performance measures: the Sharpe ratio; standard deviation; coefficient of variation; Treynor ratio; Jensen alpha; and the beta coefficient. These metrics were computed for both Islamic and conventional funds in the pre-COVID-19, COVID-19 and post-COVID-19 periods.

Findings: The empirical findings of this study revealed that Islamic funds generally performed better than conventional funds across all periods.

Recommendations / Value: The findings of this study, thus, suggest that Islamic funds could offer stability and portfolio diversification benefits predicated on their investment screening style.

Managerial Implications: The implication of the research findings is far-reaching in the contemporary finance and risk management sectors, as it demonstrates that the resilient and stable nature of Islamic funds represents an adaptable investment alternative during market uncertainties. This is critical for finance and management professionals who seek to optimise corporate investment decisions via strategic portfolio management in multiple ways. Firstly, Islamic funds as an inherently diversified portfolio, offers a compelling structure for downside risks mitigation during crises periods. This implies that asset managers should consider this type of funds when seeking risk diversification strategies, especially during market crises. Secondly, the resilience of Islamic funds during the COVID-19 crisis, reiterates that ethical investing is not undermined by market conditions. This implies that there is a market appeal for investors seeking ethical and sustainable investment alternatives that aligns with their beliefs. Lastly, the findings of this study emphasize the need for investors to be cognizant of performance disparities between Islamic and Conventional funds during market downturns. This implies that an awareness on funds performance during crisis periods, could offer investors the capability to make informed investment decisions.

Keywords

Financial Crises, Financial Risk Management, Investments, Islamic Funds, Portfolio Management.

JEL Classification: G11; G15; G20; G23; G29.