

## CHAPTER I

### INTRODUCTION

#### 1.1 BACKGROUND OF THE PROBLEM

Capital market that is market that brings together investors (parties with excess funds) and issuers (companies that need funds) to buy and sell securities. Securities included in the capital market are stocks, bonds and mutual funds (Rodoni & Fathoni, 2019:44). The growth of the national capital market, if the growth is large enough, can be said to increase. The capital market has a strategic position and has become an important part of a country. The growth of the capital market can be illustrated by the continued growth of trading tools, one of which is mutual funds. Mutual fund profits are the easiest way to invest, and also the easiest way to enter different markets and securities, because the services provided by mutual funds make it easier for investors, because the company's fund management responds to purchases. and sale of assets and charge any dividends and income. In addition, mutual funds also allow multiple investors to participate in investments that may only apply to larger investors. Compared to buying shares outright, the risk of investing in this way may be lower (Baker et al, 2016:4).

Mutual funds are intended as an alternative way to raise funds from small investors who want to invest but only have limited time and knowledge to calculate their investment. Article 1 paragraph 2 of the Capital Market Law no. 8 of 1995 explains that mutual funds are a means

of collecting public funds from investors to then be invested in securities portfolios by investment managers. The combined holdings of a mutual fund can be referred to as an investment portfolio. One indicator of mutual fund portfolio returns is net asset value (NAV). Net Asset Value (NAV) is a benchmark to see the development or performance of mutual funds, both positive and negative. NAV is the value per mutual fund share, calculated by subtracting the fund's liabilities from the current market value of its assets and dividing by the number of shares outstanding (Baker et al, 2016:4).

Mutual funds in Indonesia are undergoing development, namely the creation of sharia mutual funds which are designed to provide options for potential investors who are hesitant about conventional mutual funds. Citing OJK, the difference is first, the choice of investment tools and investment mechanisms must not conflict with sharia principles. Second, the whole process of portfolio management, screening and cleaning. The history of sharia mutual funds in Indonesia began when PT Danareksa Investment Management issued sharia mutual funds on July 3, 1997. It is hoped that after sharia mutual funds are published in Indonesia, local investors can play the role of investing their funds in Indonesia, highly recommended. Can be productive and useful for others (Tasa et al, 2020).

**Table 1. 1****Amount and Percentage of Religious Adherents in Indonesia**

<b>Religious</b>	<b>Total Population</b>	<b>Percentage</b>
Islam	236.53 Million People	86,88%
Kristen	20.4 Million People	7,49%
Katolik	8.42 Million People	3,094%
Hindu	4.67 Million People	1,71%
Budha	2.04 Million People	0,75%
Khong Hu Chu	73.02 Thousand People	0,03%
Other	102.51 Thousand people	0,04%

Source: [www.katabooks.katadata.co.id](http://www.katabooks.katadata.co.id) (2021).

Indonesia is a country where the population is predominantly Muslim, but the development of Islamic capital market investment, especially in Indonesian Islamic mutual funds, is still lagging behind compared to conventional mutual funds (Sumantyo & Savitri, 2018).

**Table 1. 2****Development of Sharia Mutual Funds, Conventional Mutual Funds, Inflation, Exchange Rates and Money Supply (M1) in Indonesia.**

Year	Sharia Mutual Funds		Conventional Mutual Funds		Inflation (%)	Exchange Rates (USD)	Money Supply (M1)
	NAV (Rp Trillion)	Amount Mutual Funds	NAV (Rp Trillion)	Amount Mutual Funds			
2015	11.02	93	260,949.57	998	3.35	13.795	1,055,440
2016	14.91	136	323,835.18	1.289	3.02	13.436	1,237,643
2017	28.31	182	429,194.80	1.595	3.61	13.548	1,390,807
2018	34.49	224	470,899.13	1.875	3.13	14.481	1,457,150
2019	53.74	265	488,460.78	1.916	2.72	13.891	1,565,358
2020	74.37	289	499,174.70	1.930	1.68	14.105	1,855,625
2021	44	289	534,434.11	1.909	1.87	14.269	2,282,157

Source: Otoritas Jasa Keuangan (2022); Bank Indonesia (2022) dan Badan Pusat Statistik (2022).

Seen from table 1.2 Sharia mutual funds are still far behind conventional mutual funds. However, developments from 2015 to 2020 have increased the number of sharia and conventional mutual funds and there is no visible decline. In 2021 the number of sharia mutual funds is consistent while the NAV of sharia mutual funds decreases. The number of conventional mutual funds in 2021 has decreased but the NAV of sharia mutual funds has increased. A significant increase in sharia mutual funds occurred in 2016-2017 as many as 43. Not only the number of sharia

mutual funds, but the NAV of sharia mutual funds always increased from 2016 to 2020.

Sharia mutual funds can be classified as an investment tool based on sharia law, whose potential and prospects will continue to grow, but also need attention in the context of economic changes that affect the performance of sharia mutual funds. One of the factors that influence the performance of sharia mutual funds is macroeconomics. The variables that will be discussed in this research are investment risk, inflation, exchange rate, and the money supply.

The first variable that affects the net asset value of Indonesian Islamic mutual funds is investment risk. Every investment is hope for the future, but there is a potential for uncertainty in investing, which is called risk. Most investors prefer investments with high returns but low risk. The purpose of Islamic mutual funds is to maximize returns or profits and minimize risk. In accordance with the investment law, namely “high risk, high return”, it means that a high investment return has the potential to carry a large risk as well. Research conducted by Lailiyah and Setiawan (2020) shows that risk has a positive effect on the performance of sharia mutual funds, which means if the risk increases and the NAV of sharia mutual funds increases. Unlike the research conducted by Putri (2017) which states that risk has a negative and significant impact on the performance of sharia mutual funds, which means that if investment risk

increases, the NAV of sharia mutual funds also increases and otherwise.

The second macroeconomic variable that affects the net asset value of Indonesian sharia mutual funds is inflation. In unstable economic conditions, inflation can occur at any time. As an investor, you must be able to anticipate this situation when investing. Inflation is usually a condition of an increase in prices, or a condition of a decrease in the value of a currency, because an increase in the amount of currency in circulation is not proportional to an increase in the supply of goods. The inflation rate can have a positive or negative impact, depending on the inflation rate itself. Excessive inflation will cause losses to the entire economy, which can bankrupt many companies. The high level of inflation caused the decline in the issuer's profit so that the value of shares listed on the capital market also decreased. This results in reduced investor interest in sharia stock mutual funds so that the NAV will also decrease (Azkiyah, 2017).

From table 1.2 it can be seen that the comparison between the NAV of sharia mutual funds and inflation data shows that inflation from 2015-2021 has fluctuated. Inflation has increased, the NAV of Islamic mutual funds has also increased. While inflation has decreased, the NAV of sharia mutual funds continues to increase from 2015-2021. In other words, the NAV of sharia mutual funds in 2015-2021 has increased, even though inflation in Indonesia has fluctuated. There are several studies that examine the relationship between inflation and NAV of sharia mutual

funds in Indonesia. In the research of Pratiwi and Budiman (2020) that inflation has no effect on the NAV of sharia mutual funds. Priyandini and Wirma (2021) research that inflation has a negative effect. However, research from Ardhani et al (2020) shows that inflation has a positive and significant effect on the net asset value (NAV) of sharia mutual funds growth in Indonesia.

The next macroeconomic factor that can affect the net asset value of a mutual fund is the exchange rate. The stability of the Indonesian rupiah exchange rate against foreign currency exchange rates will maintain the stability of the prices of goods and services as reflected in inflation. Since 2005, Bank Indonesia has implemented monetary policy with the main target of inflation, and Indonesia has implemented a free-floating exchange rate system. The appreciation of the currency became a factor driving the lowering of inflationary pressure due to the strengthening of the Indonesian rupiah. Determination of the exchange rate of the rupiah against foreign currencies is important for Indonesian capital market players. Because foreign currency exchange rates greatly affect the amount of costs that must be incurred, as well as the transaction costs of shares and securities on the capital market exchange. Unstable exchange rate fluctuations will reduce the level of confidence of foreign investors in the Indonesian economy. This will inevitably have a negative impact on investment in the capital market, foreign investors tend to withdraw their capital, causing capital flows which will have an impact on decreasing the

rate of return that will be distributed.

Seen from table 1.2 regarding the exchange rate against the USD in Indonesia. The exchange rate from 2015-2021 experienced ups and downs, but in 2018 the exchange rate rose by 14,481 compared to 2017 only 13,548. At the beginning of the emergence of the Covid-19 virus, the Rupiah weakened, so that in 2020 the rupiah exchange rate became 14,269. The comparison of the data in table 1.2 shows that the exchange rate has increased and the NAV of sharia mutual funds continues to increase. The exchange rate against the USD decreased, the NAV of sharia mutual funds continued to rise. So even though the exchange rate fluctuates, the NAV of sharia mutual funds in 2015-2021 continues to increase. The opinion of Setyani and Gunarsih (2018) in their research is that the exchange rate has a negative and significant effect on the Net Asset Value of Sharia Mutual Funds. Meanwhile, research conducted by Pratiwi and Budiman shows that the exchange rate has a positive effect on the net asset value of sharia equity mutual funds.

The fourth variable in this study is the money supply. One of the factors influencing the increase in the money supply is the government budget deficit. When such a deficit occurs, the government tries to finance it by producing more money, which will lead to monetary expansion. During this monetary expansion, people tend to have higher investment potential due to lower interest rates. This leads to an increase in the



demand for investment tools, which has a positive impact on share prices, which also means an increase in the net asset value of sharia mutual funds.

From data on the money supply (M1) from 2015-2021 it has increased, but according to table 1.2 data, a rapid increase will occur in 2021, the difference between 2020 and 2021 is 426,532. The comparison of table 1.2 data between the money supply and the NAV of sharia mutual funds in 2015-2021 is the fluctuation in the money supply, not followed by the NAV of sharia mutual funds in Indonesia because the NAV always increases from year to year. According to research from Sumantyo and Savitri (2019) in the study "Macroeconomic Variables Against Net Asset Value of Sharia Mutual Funds in Indonesia and Malaysia" that the money supply has a positive and significant effect on the net asset value of Islamic mutual funds in Indonesia and Malaysia. This research is not in line with research from Agarwal and Khan (2019) that the money supply has a negative and significant impact on the NAV of sharia mutual funds.

The inconsistency of research results in explaining the effect of sharia mutual fund performance on investment risk, inflation, exchange rates and the money supply in Indonesia. Therefore, this study focuses on the effect of investment risk, inflation, exchange rate and money supply on the performance of sharia mutual funds in Indonesia in January 2015 - December 2021.

## 1.2 SCOPE

This research will use the scope needed in the research so that the problem does not spread. The connecting spaces to be checked are:

- a. The object of research is a company registered with the Otoritas Jasa Keuangan of Sharia mutual funds in January 2015 - December 2021
- b. The data used in this study uses secondary data, namely the financial statements of companies listed in sharia mutual funds, Otoritas Jasa Keuangan, Badan Pusat Statistik and Bank Indonesia.
- c. The dependent variable is the performance of Islamic mutual funds. While the independent variable consists of investment risk, inflation, exchange rate, and the money supply.

## 1.3 FORMULATION OF THE PROBLEM

Based on the description of the phenomenon and the differences in the results of the research in the background section, it can be concluded that the formulation of the problem as follows:

1. There are differences in the results of research (research gap) from previous journals regarding the effect of investment risk, inflation, exchange rates and money supply on the performance of Sharia mutual funds. Therefore, this study focuses on the effect of risk, inflation, exchange rates and money supply on the performance of Sharia mutual funds in January 2015 - December 2021.

2. As well as fluctuations in the independent variables (investment risk, inflation, exchange rates and money supply (M1), but not followed by a decrease in the dependent variable (performance of sharia mutual funds)

Based on the description of the problems above, further research is needed, so that research questions can be formulated as follows:

1. Does investment risk have a positive impact on the performance of sharia mutual funds in Indonesia in January 2015 - December 2021?
2. Does inflation have a positive impact on the performance of sharia mutual funds in Indonesia in January 2015 - December 2021?
3. Does the exchange rate have a negative impact on the performance of sharia mutual funds in Indonesia in January 2015 - December 2021?
4. Does the money supply (M1) have a positive impact on the performance of sharia mutual funds in Indonesia in January 2015 - December 2021?
5. Does investment risk, inflation, exchange rate, and money supply (M1) have a simultaneous effect on the performance of sharia mutual funds in Indonesia in January 2015 – December 2021?

#### **1.4 RESEARCH PURPOSES**

Based on the formulation of the problem above, the objectives of this study are as follows:

1. Analyzing the effect of investment risk on the performance of

sharia mutual funds in Indonesia in January 2015 - December 2021.

2. Analyzing the effect of inflation on the performance of sharia mutual funds in Indonesia in January 2015 - December 2021.
3. Analyzing the effect of the exchange rate on the performance of sharia mutual funds in Indonesia in January 2015 - December 2021.
4. Analyzing the effect of money supply (M1) on the performance of sharia mutual funds in Indonesia in January 2015 - December 2021.
5. Analyzing the effect of investment risk, inflation, exchange rate, money supply (M1) on the performance of sharia mutual funds in Indonesia in January 2015 – December 2021.

## **1.5 BENEFITS OF RESEARCH**

### **1.5.1. Theoretical Benefits**

#### **1. Academic benefits**

This research has a close relationship with the sharia economy, so that with this research interested parties can better understand, can add references and can be used as a reference for further research on the performance of sharia mutual funds in Indonesia.

#### **2. Benefits for Researchers**

This research is a means for researchers to apply the knowledge

that has been taken in learning at Muria Kudus University and to motivate researchers for further research.

### **1.5.2. Practical Benefits**

#### **1. Benefits for the Company**

It is hoped that the company can use the results of this research as a consideration in managing funds in sharia mutual funds.

#### **2. Benefits for investors**

The results of this study are expected to be used by investors in making decisions related to investment in sharia mutual funds.

