Differential Effects of Law, Culture and Political Risk on Performance and Risk-taking Behavior of Fund Managers

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ABSTRACT

This paper considers an international sample of conventional and Islamic mutual funds to assess whether law, culture, and political risk affect the performance and risk-taking behavior of mutual funds. Overall, the results show strongly that legal conditions, culture, and political risk have robust differential effects on performance and risk-taking behavior of Islamic and conventional funds. We find that Islamic and conventional funds in developing countries with lower legal conditions, higher corruption and political risk have higher performance. Likewise, in such conditions, both of Islamic and conventional funds have lower return volatility and systematic risk. Overall, Hoefsted culture's values affect significantly the performance and risk-taking behavior of fund managers with robust differential effects between Islamic and conventional funds. The components of country legality and political risk Index have significant differential effects between Islamic and conventional funds. Overall, the data show the fund manager characteristics (experience, qualifications, etc) and specific fund features matter for the performance and risk-taking behavior of fund managers.

Keywords: Performance, Risk, Managerial Compensation; Incentive Contracts, Mutual funds; Law and finance, Political risk

1. Introduction

"*In reality, a political upheaval in one country can lead to contagious nervousness about an entire group of nations, whether it is emerging markets or the eurozone. That is why political risk is likely to be one of the main threats to the global economic recovery, over the coming year… In its prospectus for a share offering in London 2006, Rosneft, a large Russian oil company, had stated frankly: "Crime and corruption could create a difficult business climate in Russia… Now, investors also have to factor in the risk of an international political crisis*".
(G Rachman, *Financial Times*, 17 Mars 2014)

Securities and Exchange Commission defines funds as investment vehicles that pool funds of individuals and/or institutional investors to allocate it in financial securities, such as stocks and bonds. Investors in a private equity fund are the limited partners who instead own a share of the fund and the fund manager is the general partner who selects the particular assets in which the fund invests (Cumming and Johan, 2007). Fundamentally, Islamic and conventional funds are very similar. Their difference lies in the respect to strict guidelines in order to comply with Islamic law principles. Indeed, in the process of purification, the Islamic fund manager has to proceed at two levels. The first level of selection is to systematically exclude the shares of companies involved in activities considered illegal by the Islamic law. Some Islamic law boards require that income from non-permissible activities has to be less than 5% of total earnings. At a second level, the fund manager has to make a financial screening to exclude companies with financial ratios incompatible with Islamic law investment guidelines. After these two filters, the manager will have a purified investment universe. An independent Islamic law board monitors the compliance of Islamic funds' investments with these qualitative and quantitative screening criteria.

Over the last financial crisis, the performance and risk-taking of Islamic funds have been rigidly scrutinized. Several studies show Islamic equity funds outperform (underperform) conventional funds over financial crisis (bullish period) (Abdullah et al., 2007; Merded, Hassan and Ahenwi, 2010; Zaher and Hassan, 2001). Therefore, Islamic funds can be a hedging instrument during down market and provide potential portfolio diversification benefits for investors (Kassim and Kamil, 2012). Historically, the majority of Islamic mutual funds are concentrated in Muslim countries of the Middle East and Asia, but, recently, some Islamic funds are emerged to Europe and United States. The expansion of Islamic funds is likely due to that some occidental countries believe that the integration of

ethics and values into finance provide a positive economic development, particularly in light of recent United States business corruption scandals (Shayerah, 2010).

Nevertheless, in USA, some critics stipulates that Islamic financial institutions support terrorist finance networks (Shayerah, 2010), but "there is no reason, in theory, to suspect that Islamic finance would be particularly immune or particularly vulnerable to abuse by money launderers or terrorist financiers."(El-Gama, 2007). We argue that terrorist events with such judgment might negatively influence the reputation and activities of Islamic funds, and therefore their performance since portfolio investors are more likely to be affected by country-level risks (financial risks, political risks, etc.) and country values (legal and cultural dimensions) (Wagner, 2012). For instance, in Afghanistan, "Widespread corruption, weak rule of law, and ongoing insecurity continues to hinder private-sector growth and investment"[1]. Similarly, "Russia provides a good case study of the two sorts of political risk that investors have to consider: the macro and the micro. Macro political risks involve large scale changes either in the form of international upheaval or international conflict which can seriously destabilize the business environment."[2]. Similarly, "for the past decade, Turkey has grown rapidly and was widely perceived to be benefiting from the strong and confident leadership off prime minister, Recep Tayyip Erdogan. But, he now faces multiple challenges, including recurrent street protests in Istanbul, a corruption probe and a row with the powerful "Gulenist" movement, that has split the forces of political Islam. Given Turkey's dependence on short-term capital, rising political turbulence could spell economic trouble". Similar cases are tightly widespread that the mental connection between political risk, regulation, ethics, risk-taking behavior and performance in the financial services could be evident.

Usually, international funds that invest in developed and emerging overseas countries provide potential diversification profits but also support additional risks, such as currency, liquidity, and political risks. Political risk has always been a fundamental part of the investment process of fund managers"[3]. The recent political circumstances and wave media coverage against investment performance drive us to assess whether legal settings, culture and

1 http://www.americanprogress.org/issues/security/report/2014/03/10/85598/afghans-find-their-way/.

2 http://www.ft.com/intl/cms/s/0/5df7c230-9fb0-11e3-b6c7-00144feab7de.html#axzz2wDzOD9GA

3 Source: http://individual.troweprice.com/public/Retail/Planning-&-Research/Tools-&-Resources/Investment-Planning/Getting-Started-Investing-With-Mutual-Funds#top

political risk affect, respectively, the performance and risk-taking behavior of mutual funds. We model a system for an international sample of conventional and Islamic mutual funds. To the best of our knowledge, this is the first study in this way across countries.

These findings contribute extensively to the existing literature on law and finance associated with mutual funds. First, our results quantify the role of law, cultural settings and political risk in explaining the risk-taking behavior and performance of mutual fund managers across countries. Indeed, many earlier studies just compare mutual funds' risk-adjusted performance, as well as other endogenous variables (risk and fees) (Sharpe, 1966); Jensen, 1968; Friend and Blume, 1970; Ippolito, 1989; Grinblatt and Titman,1992; Hendricks et al., 1993; Black et al., 1993). Few researchers have tried to find the determinants of performance of mutual funds. For instance, Cumming and Dai (2010) find that regulatory requirements tend to be related to weaker manipulation-proof performance measures, lower fund alphas and lower average monthly returns (as well as lower Sharpe ratios). Other studies find the evidence that legal settings explain investment performance of venture capital (Lerner and Schoar, 2005; Cumming et al., 2006; Hege et al., 2009; Cumming and Johan, 2009; Cumming and Waz, 2010) and mutual funds (Ferreira et al., 2013), as do culture and corruption across countries for venture capital (Cumming and Johan, 2010). Other empirical studies show specific fund characteristics affect US domestic mutual fund's performance and volatility (Golec, 1996; Massa and Patgiri, 2009). Likewise, the literature on Islamic mutual funds neglects the explanation of their performance and risk-taking behavior (Paterson et al., 2001).

Second, Consistent with fund manager characteristics, a Financial Times article in 2009 quotes a Bank of England official as saying that "The superior performance of the financial services sector in the years leading up to the credit crisis was almost entirely due to luck rather than skill – and banks increasingly gambled on luck in an effort to keep up with their peers. [...]Good luck and good management need to be better distinguished"[4]. This quote stipulates that is too difficult to distinguish performance that is due to true investment skill from that attributable to excessive risk taking. Over recent years, this wave of media coverage against fund manager skills indicates the performance attribution problem that investors face and the risk management challenges that managers face. Similarly, we can believe that the return to investment could depend on the portfolio manager's skill at picking investments and the fees that might be paid by investors or by funds. Therefore, we test the

[4] 'Bank profits were due to 'luck, not skill', By Norma Cohen (July 1, 2009).

effects of fund manager characteristics and market conditions to the legal and political conditions in which a fund is domiciled to identify the relevant determinants of mutual funds' performance and risk-taking. Referring to human capital theory, we believe that market conditions and fund manager characteristics might have a relevant impact on mutual fund managers' performance and risk-taking behavior. Consistent with regulatory requirements across countries, we contrast and compare the effects of legal setting versus cultural dimensions in order to check the relevant role of specific country conditions in performance and risk-taking behavior. We expect legal conditions affect the performance and risk-taking behavior of mutual fund managers . We provide direct evidence for the theory in two relevant ways. First, our major contribution lies in constructing a new and unique database that includes a final sample of 322 Islamic and 285 conventional mutual funds in 23 countries over a recent period 2010-2012. We hand-build the list of conventional mutual funds from the Islamic fund managers' websites in order to form pairs of Islamic and conventional funds managed by the same fund manager. Here, one relevant question is: "Are there differential effects of country conditions on the performance and/or risk-taking behavior among Islamic and conventional funds under the same fund manager?" Second, to the best of our knowledge, we explore for the first time the impact of the specific features of countries' political risk on performance and risk-taking behavior of mutual fund managers, including different components of legal (law origin from La Porta et al., 1999) and political conditions as well as Hofstede's cultural dimensions.

Our sample of 607 mutual funds across countries shows in countries with stronger legal settings and higher political risk, the performance is lower, the fund return volatility and systematic risk are higher. These findings imply that in countries with worse legal conditions and higher political risk the fund managers are more risk averse. Then, we examine separately the effects of specific components of legal settings and political risk across countries, and we show significant impact on performance and risk-taking behavior. We show some components of legal and political conditions have differential effects between Islamic and conventional mutual funds. Likewise, we find that in countries with less corruption, mutual fund managers' performance is higher and volatility is lower. The data shows differential effects of corruption between Islamic and conventional funds. Similarly, the data show Hofstede's cultural measure of Power Distance is negatively related to mutual funds' performance and negatively related to their volatility. Consistent with fund manager characteristics, we find that conventional mutual fund managers who receive higher

performance fees have higher performance with higher risk-taking behavior, whereas Islamic fund managers have lower performance and lower systematic risk. Overall, the data indicates the robustness of the effects of legal settings, cultural dimensions, political risk and mutual fund manager characteristics on the performance and risk-taking behavior.

The remainder of the chapter is organized as follows. Section 2 develops predictions pertaining to the factors that explain performance and risk-taking behavior of mutual funds. Section 3 presents the data sample and summary statistics. Section 4 summarizes the empirical test and results. Concluding remarks are provided in the last section.

2. Data and Methodology

In this section, we describe the collect of data and we define the variables used in our analysis. Afterwards, we summarize the data for each country and we identify data statistics with distinction between Islamic and conventional funds.

2.1 Sample description

The data sample spans over the period between January 2010 and March 2012. In this paper, the cross-sectional data and short sample period do not take into account the fund changes in order to reduce the survivorship bias. The database set is free from survivorship bias since it includes data on both active and dead funds. The initial sample includes 767 Islamic funds and 970 conventional funds. We check the coverage of Islamic funds by Morningstar Direct with Bloomberg, Eurekhedge and IFIS databases. Total numbers of Islamic funds reported by Morningstar Direct, Bloomberg, Eurekhedge and IFIS databases are, respectively, 610, 391, 568 and 767 as of March 2012. As regards with conventional funds, it is selected as funds maintained by the same management company as Islamic funds. This conventional funds' list is hand-built from the Islamic fund managers' website. Then, after sorting conventional funds by type with respect to Islamic funds' type, we save a final sample of 607 open-end mutual funds (285 conventional funds and 322 Islamic funds). We include in our sample all the Islamic and conventional investment funds without any distinction between their asset class focus: 382 equity, 83 debt, 32 money market, 1 real estate, 4 commodities, 7 alternatives, and 97 asset allocation. We remove index funds from our sample.

To evaluate the performance and return volatility of Islamic and conventional funds, we collect their daily total net asset value (TNA) from Morningstar Direct database, Bloomberg, Datastream, and IFIS (Islamic Finance Information Service) databases. Finally,

we choose monthly frequency because of a lack of daily TNA for some funds in order to avoid survivorship bias. This lack of daily data is, presumably, due to that some funds are quoted weekly or monthly.

The variables used can be classified into different groups which are defined in Table (6.1). Other variables used in our empirical analysis are not explicitly reported for reasons of conciseness. The results are quite robust and are available upon request. We begin by defining the endogenous variables which are the data related to the performance (alpha's Jensen) and risk-taking behavior (fund return volatility and systematic risk) of Islamic and conventional mutual funds. Thereafter, we identify the exogenous variables which are the data related to legal settings, political conditions, cultural dimensions, country's economic conditions, fund manager characteristics and specific fund features. First, we use country legality Index as defined by Berkowitz et al. (2000), Law and order, corruption perception Index, efficiency of judiciary system and country legal origin as proxies of legal settings (La Porta et al., 1998). Then, political risk Index and his components are chosen as an assessment of country political environment. Second, we use the Hofstede's cultural measures as proxies of the native country's culture of each fund manager (according to their respective nationality). Afterward, we define control variables. Indeed, we use GNP per capita, fund domicile type (offshore or domiciled fund) and religion beliefs of population per country as proxies of country' economic conditions. There are also data on the fund manager characteristics: their qualifications (PhD, MBA, Bachelor, Legally and Islamic-training), average years of work experience, team size and number of Islamic funds under management. Finally, there are data on the specific features associated to the Islamic and conventional funds: fund size, family size, fund age, investor share type (institutional or retail), payment share type (accumulation or income), lagged volatility and lagged alpha. The data we have collected here is unique. The definition and source of data are indicated in Table (6.1) for each variable.

[Insert Table 6.1 Here]

2.2 Summary statistics

Survey data were gathered for a final data sample includes 322 Islamic funds and 285 conventional funds from eight developed and 15 developing countries, where two Islamic funds from France, one conventional and 12 Islamic from Ireland, 34 conventional and 31 Islamic from Luxembourg, one Islamic from Switzerland, three conventional from South Korea, two conventional from U.K, seven from U.S.A, one conventional and two Islamic

from British Virgin Islands, one Islamic from Cayman Islands, one conventional and four Islamic from Guernsey, two conventional and three Islamic from India, 28 conventional and 31 Islamic from Indonesia, one conventional from Iraq, five conventional and 14 Islamic from Kuwait, four conventional and two Islamic from Bahrain,142 conventional and 113 Islamic from Malaysia, 18 conventional and three Islamic from Pakistan, one Islamic from Qatar, 29 conventional and 72 Islamic from Saudi Arabia, nine conventional and 18 Islamic from South Africa, one conventional from Sri Lanka, one conventional and five Islamic from U.A.E and three conventional from Singapore (see Table 6.2). The collect of data for offshore and domestic funds managed in developed and emerging countries with common, civil and/or Islamic law jurisdictions, makes a survivorship bias even less likely.

[Insert Table 6.2 Here]

Table 6.2 summarizes the data consistent with legal, political and market conditions for each individual country. Table 6.3 summarizes data for all countries together. As explained above in Table 6.1, a stronger country legality Index implies better legal conditions for investment and likelihood of enforcement (Ding et al., 2012; Knill, 2012; Johan and Najar, 2012). Higher political risk Index indicates less political risk and higher cultural indices mean that those cultural dimensions are more pronounced. Countries with higher score of corruption Index are countries with less corruption.

[Insert Table 6.3 Here]

We note from Table 6.3 a positive and significant mean difference around 0.0197 between the risk-adjusted return of Islamic and conventional funds at a significance level of 5% (for the period January 2011-March 2012). Similarly, the average fund return volatility and the systematic risk of Islamic funds are lower than those of conventional funds by, respectively, 0.039 and 0.17 points. These differences are significant at the 1% level.

Consistent with legal conditions, Table 6.3 shows countries, in which Islamic funds are domiciled, exhibit higher legal settings, lower efficiency of the judiciary system and lower corruption than countries in which conventional funds are managed. The median differences are significant. Thus, we expect their domiciles' legal settings to explain their different fees, performance and risk- taking behavior. Furthermore, we note that, on average, 39% of Islamic funds and 25.26% of conventional funds are managed in countries based on Islamic Law legal origin. And, on average, around 76% of Islamic and conventional funds are domiciled in

countries with common law. We, thus, control for the effects of legal origin (common, civil or Islamic law) on our endogenous variables. Likewise, Table 6.3 shows conventional funds are located in countries characterized by a riskier investor profile (at 1% level of significance), lower religion tensions, less internal conflict's risk, weaker socioeconomic conditions' risk, lower government stability's risk. We note that there is no significant mean difference between the political risk index of countries in which Islamic and conventional funds are managed. Thus, we assess whether the political risk has differential effects between Islamic and conventional funds.

Consistent with Hofstede's cultural dimensions, Islamic fund managers are on average from more competitive native countries with higher power distance (at a significant 5% level) and uncertainty avoidance (at a significant 1% level). Likewise, consistent with market conditions, Table 6.3 exhibits lower GNP per capita and lower percentage of muslim in countries where conventional funds are domiciled. Our data sample contains 13% of offshore conventional funds and 16.5% of offshore Islamic funds. As explained in Table 6.1, an offshore fund is a collective investment scheme domiciled in an Offshore Financial Center such as the British Virgin Islands, Luxembourg, and the Cayman Islands. It is typically sold exclusively to 'foreign' investors. A domestic fund is a commingled investment fund which only invests in securities originating from typically the country in which the fund is domiciled. As this distinction seems to be relevant in practice for mutual funds' management in an international setting, we choose to control these variables in our empirical analyses.

Regarding to fund managers' characteristics, the summary statistics show significantly the bachelor-trained Islamic fund managers are on average more numerous than bachelor-trained conventional fund managers (at a significant 1% level). When we compare with Islamic funds, the most of conventional fund managers have MBA/CFA or PhD graduation. 6.52% of Islamic fund managers have additional Islamic and/or legally diploma, whereas only 2.81% of conventional fund managers are Islamic and/or legally-trained. Likewise, Islamic fund managers have less average relevant work experience than conventional fund managers (a significant difference of -1.174 at 5% level of significance and a significant median difference (-2) at 1% level of significance). Nevertheless, Table 6.3 does not show a significant difference between the team size of Islamic and conventional funds. These differences in their contract fees and manager characteristics seem to be relevant in practice for fund managers who manage, simultaneously, Islamic and conventional funds in an

international setting. Therefore, we use data on their qualification degrees, experiences, team size and fees in our empirical analyses.

Consistent with funds' features, around 64% Islamic funds have on average accumulation share type option, whereas 48.42% of conventional funds have income share type option. The difference is significant at 1% level. Likewise, more than thirteen percent of Islamic funds, but only eight percent of conventional funds are addressed to institutional investors (a mean and median difference at a significant 5% level). Table 6.3 shows significant negative mean and median difference between the lagged volatility of Islamic and conventional funds. This observation indicates the negative persistence of the significant negative difference between the volatility of Islamic and conventional funds.

[Insert Table 6.4 Here]

Correlation matrices are provided in Table 6.4 for, respectively, Islamic and conventional funds. The correlation matrices show a strong negative correlation between the country legality index and the funds' performance (Islamic (-0.23) and conventional (-0.24) funds) at a significant 5% level and a strong positive correlation between the legality index and the systematic risk (Islamic (0.13) and conventional (0.27) funds). Table 6.4 also shows a positive correlation between fund return volatility (Islamic (0.01) and conventional (0.26) funds) and the legality index. Likewise, from Table 6.4 we find that the performance is strongly negatively correlated with less political risk (-0.26 for Islamic funds and -0.15 for conventional funds) and negatively correlated with less corruption (-0.18 for Islamic funds and -0.17 for conventional funds). Consistent with risk-taking behavior, Table 6.4 shows a positive correlation between less corruption and the fund return volatility (Islamic funds (0.05) and conventional funds (0.28)). Similarly, we note that less corruption is positively correlated with the systematic risk of, respectively, Islamic (0.17) and conventional funds (0.25). Table 6.4 shows less political risk is significantly positively correlated with the fund return volatility (Islamic funds (0.05) and conventional funds (0.27)) and with the systematic risk (Islamic funds (0.24) and conventional funds (0.36)). Finally, we note from Table 6.4 that many variables are correlated at a significant level of 5%. Therefore, in our multivariate econometric analysis below, we consider collinearity by presenting various specifications for each endogenous variable.

3. Determinants of mutual fund Performance and Risk Taking behavior

As explained above, we analyze three different endogenous variables performance (alpha's Jensen) (Table 6.5), fund return volatility (Table 6.6) and systematic risk (Table 6.7). The various exogenous and endogenous variables are defined in Table 6.1. Then, for each endogenous variable we make four alternative sets of regressions to look at the robustness of our results. For the present empirical analysis we use the standard OLS regression methods with heteroscedasticity and autocorrelation robust standard error (HAC standard errors). In this empirical analysis, we excluded some variables that have quite robust effect on models. Other aspects of the data, including other variables, are not explicitly presented for reasons of reliability and colinearity. These results are available upon request.

3.1 Which factors explain the mutual fund Performance?

We begin by analyzing the role of legal settings, cultural dimensions and political risk in the annual risk-adjusted return of mutual funds. We regress mutual fund performance on our country conditions and a set of control variables. Similarly, we use a dummy variable that allow us to assess the differential effects of country conditions on the performance of Islamic funds versus conventional funds. We estimate:

$$R_i = \lambda_R + \delta_{dummy} + \theta_R C_i + \delta_{dummy}\theta_R C_i + \omega_R Y_i + \delta_{dummy}\omega_R Y_i + \Psi_R U_i +$$

$$\delta_{dummy}\Psi_R U_i + \gamma_R X_i + \delta_{dummy}\gamma_R X_i + \varepsilon_i \qquad (6.1)$$

Where, for the *i*th fund at time March 2012, R_i is the Alpha's Jensen calculated individually with respect to the CAPM model using the Dow Jones World Index return as the market portfolio and US T-bill sec market 3 months as the risk free rate of the *i*th fund, λ_R is the intercept, δ_{dummy} is a dummy variable that takes the value of 1 for Islamic mutual fund and 0 for conventional mutual fund, C_i is a vector of variables used as proxies of legal conditions as defined in Table (6.1), Y_i is a vector of variables used as proxies of Political risk, U_i is a vector of variables used as proxies of cultural dimensions, X_i is a vector of control variables including proxies of market conditions, fund manager characteristics and specific fund features.

3.1.1 Legal Settings and mutual fund Performance

Consistent with the effects of law on performance cross-country, we adopt the methodology of Berkowitz et al. (2003) using the country legality index as a weighted average of the most used indices of La Porta et al. (1998); efficiency of the judiciary, rule of law, risk of expropriation, risk of contract repudiation, and shareholder rights. Usually, investors will be reluctant to invest in markets where their rights are not properly protected (Ferreira et al., 2013). For instance, La Porta et al. (1997) observe that countries with weak investor protection have significantly smaller debt and equity markets. They also note that the quality of the legal system is significant for the enforcement of contracts and captures the government's general attitude toward business. Furthermore, in the venture capital context, prior studies show countries with weaker legal conditions face more uncertain exit markets whereby it is harder to generate capital gains and good performance (Lerner and Schoar, 2005). More recent study shows for domestic conventional funds located in countries with stronger legal institutions, better country-level investor protection and more rigorous law enforcement tend to perform better (Ferreira et al., 2013). Then, in addition to the size and fees of the industry (Khorana et al., 2005, 2009), legal conditions could be a critical determinant of mutual funds performance across countries. In our study, we use the country legality index and test, separately, the effects of its components: efficiency of the judiciary, rule of law, and corruption. Our objective is to check what specific legal conditions matter across countries. We consider three additional control variables to proxy for investor protection and quality of legal institutions. These proxies are dummy variables that define the legal origin of countries, i.e. common law, civil law and Islamic law. Common and civil law are inspired from La Porta et al., (1997), whereas Islamic law is used for the first time in such analysis. La Porta et al., (1997) and Ferreira et al. (2013) show common law systems provide better legal protection to investors of domestic mutual funds than civil law systems. Indeed, we expect specific legal origin of each country might affect the performance of Islamic and conventional mutual funds.

[Insert Table 6.5 Here]

In Table (6.5), we note from Models 1, 2 and 4 that for both Islamic and conventional funds, the legal index and its components has a robust and significant negative effect on the fund managers' performance (at the level of 1%). Similarly, Model 3 shows in countries with higher corruption, the conventional and Islamic funds' performance will be lower. Thus, there is evidence that Islamic and conventional mutual funds, whatever are domestic or offshore,

perform better in countries with weaker investor protections and higher corruption. For instance, the economic significance of this result is such Models 1 predicts that a move from a developing country Saudi Arabia (Legality Index: 15.78 in Table (6.2)) to a developed country France (Legality Index: 19.67), the performance of conventional (Islamic) funds decreases (decreases) by 1.34%[5] (1.83%). Likewise, Model 3 in Table (6.5) shows the effect of legal origin is economically significant. Islamic and conventional funds domiciled in countries with an Islamic law and/or a civil law outperform funds domiciled in countries with a common law. We do not find empirical support for these findings, since it is the first study that uses a sample of Islamic and conventional mutual funds across countries. We believe that these findings might be explained in three ways. First, in private sector, the breach of laws rights enables corrupt countries to gain illegitimate economic advantage in the international market[6]. Second, some argue that, in developing countries where governments are usually incompetent, corruption might be the only way to induce to invest by offering alternative ways to conduct business. Third, Corruption is also claimed to have a beneficial face which is known as "greasing the wheel"[7]. It means that despite the corruption might have an evil long term impact, it can bring economic growth in the short term. For example, one might also argue that bribes are speed money that allows fund managers, in developing countries, to have private information about their investment products, and thereby having better short-term performance and thereby sustaining incompetent fund managers.

3.1.2 Culture and mutual fund Performance

Likewise, we expect cultural dimensions to matter in explaining the performance of mutual funds. The management philosophy prevalent in the organization has an important effect on determining whether mangers act as stewards or agents (Singh, 2012). We note from Model 4 in Table (6.5) that in countries with more important Power Distance the conventional funds' performance is higher with significant differential effect on Islamic funds performance. The economic significance is such that a move from Saudi Arabia to France increases the conventional (Islamic) funds' performance by 0.27% (0.05%). One might believe that if the

[5] In Model 1, the coefficient (-0.344) gives the effect of country legality Index on the conventional funds' performance, whereas (-0.127) indicates the differential effect of country legality Index between the Islamic fund and conventional funds' performance. Thus, the coefficient that gives the net impact of country legality Index on the Islamic funds' performance is computed as follows: (-0.344) + (-0.127) = (-0.471). The value 1.34% is calculated as follows: (19.67-15.78) x -0.344 x 1% x 100 = -1.34 %.

[6] http://en.wikipedia.org/wiki/Political_corruption

[7] http://www.talkinbusiness.net/2012/09/how-does-corruption-affect-foreign-direct-investment-in-developing-economies/

nationality of the fund manager has lower Power Distance, the communication will be more entrusted between investors and fund managers, leading to information symmetry. Nevertheless, our result reflects that empowered fund managers, who have more flexibility to make independent investment decisions, are more likely to become trusted and to perform better in countries with stronger Power Distance.

Similarly, high uncertainty avoidance reflects a weak level of uncertainty and ambiguity tolerance in countries. Societies with low risk tolerance grow disproportionately more slowly in industry sectors characterized by high information asymmetries (Huang, 2008) and are consistent with lower levels of foreign equity investment (Aggarwal and Goodell, 2009; Beugelsdijk and Frijns, 2010). Fund managers, in countries with high uncertainty avoidance, will have less discretion. Investors in such societies expect fund managers will have a strict ability to embark in new strategic actions and try continuously to hedge against risk. Therefore investment universe of the fund will be tight which would, typically, have a negative impact on fund manager performance. Indeed, Model 2 in Table (6.5) shows a positive robust differential effect of Uncertainty Avoidance Index between Islamic and conventional funds. This result implies that Islamic fund managers from countries with lower Uncertainty tolerance have stronger performance. An increase of 5% in Uncertainty Avoidance of Islamic fund managers lowers the Islamic funds' risk-adjusted return versus conventional funds' risk-adjusted return, on average, by about 0.64%[8].

Along with the masculinity versus femininity cultural dimension, the data shows, in Model 4 (Table (6.5)), a negative and significant differential effect between Islamic and convention funds' performance. This empirical result implies that Islamic fund managers from countries with higher Masculinity have higher performance, since Masculinity reflects competitive society. The economic significance implies that a move from Saudi Arabia (Masculinity Index: 60) to France (Masculinity Index: 43) gives rise to an increase of Islamic fund performance versus conventional fund performance by 0.47%.

3.1.3 Political Risk and mutual fund Performance

Generally, Investments' performance may suffer from political risk which could be a result of political changes (a change in government, legislative systems, religious tension,

[8] The value is calculated as follows: the differential mean risk-adjusted return between Islamic and conventional funds is (0.0112 – (-0.0084) = 0.0196, while the coefficient of Uncertainty Avoidance Index in Model 2 (Table (6.5)) is 0.00250. Thus, the economic effect is (0.00250*0.05)/0.0196=0.64%.

internal conflict and war) or instability in a particular country. The risk manager's ultimate challenge when assessing political risk is to determine whether a political event poses a threat to a firm's financial performance (Wagner, 2012). Referring to literature, Barbary and Bortolotti (2011) find that political risk is negatively associated with financial performance of sovereign wealth funds. One might argue that "Factors such as domestic economic growth and market conditions, interest rate levels, and political events affect the securities markets. When the value of the Fund's investments goes down, your investment in the Fund decreases in value and you could lose money"[9]. We know only one study that tests the impact of Political Risk on conventional mutual fund performance. Bailey et al. (2005) assess the effects of the macro political risk event of interest is the Iraqi invasion of Kuwait and show that shareholders of international equity mutual funds earn significant abnormal returns in the face of political turmoil. Therefore, the Political Risk in countries might influence the performance of the mutual fund industry.

[Insert Table 6.6 Here]

In Table (6.6), Model 5 shows a positive significant effect of Political Risk on conventional funds' performance with positive differential impact of Political Risk between Islamic and conventional funds' performance. The economic significance is such that the model predicts that a move from Saudi Arabia to France, for example, gives rise to an increase in the performance of conventional funds by 0.11%. Similarly, the economic significance of the differential effect of Political Risk between Islamic and conventional funds implies that a move from Saudi Arabia to France gives rise to an increase by 0.17% of Islamic versus conventional funds' performance. These findings imply that increased Political Risk is not only a source of uncertainty, but it can also be a great investment opportunity, since fund managers in such countries may provide higher effort to have higher performance and attract investors.

Similarly, In Models 6-12 (Table (6.6)), we use the components of the Political Risk Index to capture other aspects of a country's political conditions such as investment profile, religion tensions, etc while controlling the market conditions and specific fund characteristics. As our knowledge, it is the first study that documents theses effects on the performance of mutual funds Islamic. Indeed, we note from Models 6-12 significant effects of the components of Political Risk Index. The data shows the performance of conventional funds is

[9] http://aftershockmutualfund.com/disclaimer-notice/

higher in countries with higher investment profile risk, lower religious tension, socioeconomic conditions' risk and government instability risk, higher internal and external conflict risk and weaker bureaucracy quality. Likewise, Models 6-7 and 10-12 show differential effects of Political Risk a Index's components between Islamic and conventional funds. The findings imply that the performance of Islamic funds is higher in countries with higher investment profile risk, higher religious tension, higher socioeconomic conditions risk, higher bureaucracy quality and weaker government instability risk. Therefore, we conclude that the effects of the religious tension, bureaucracy quality, socioeconomic conditions and government stability risk depend on the type of mutual funds. For instance, a move from Saudi Arabia (Religious tension:3.5) to France (Religious tension:7) gives rise to an increase by 0.76% of Islamic versus conventional funds' performance.

Overall, therefore, the data suggest that legal conditions, culture and political risk conditions have first-order effects on the performance of Islamic and conventional funds. Our findings are robust to the inclusion and/or exclusion of other control factors as discussed in the 'control variables' section below.

3.2 Which factors can explain Risk Taking behavior?

We next consider risk-taking behavior. As with legal and regulatory issues, the political and country-specific considerations magnify the complexity of investment evaluation and add another source of volatility to returns[10]. We investigate the legal conditions, cultural measures and political risk as the determinants of the fund return volatility and systematic risk. The dummy variable as using above allows us to assess the differential effects of country conditions on the risk-taking of Islamic versus conventional funds. We test this by regressing, separately, the calendar year volatility of monthly fund returns (which is the common proxy used of fund manager risk behavior) and the annual systematic risk on law, culture and political risk measures while controlling for other variables:

$$\partial_i = \lambda_\partial + \delta_{dummy} + \theta_\partial C_i + \delta_{dummy}\theta_\partial C_i + \omega_\partial Y_i + \delta_{dummy}\omega_\partial Y_i + \Psi_\partial U_i + \delta_{dummy}\Psi_\partial U_i + \gamma_\partial X_i + \delta_{dummy}\gamma_\partial X_i + \varepsilon_i \quad (6.2)$$

$$\beta_i = \lambda_\beta + \delta_{dummy} + \theta_\beta C_i + \delta_{dummy}\theta_\beta C_i + \omega_\beta Y_i + \delta_{dummy}\omega_\beta Y_i + \Psi_\beta U_i + \delta_{dummy}\Psi_\beta U_i + \gamma_\beta X_i + \delta_{dummy}\gamma_\beta X_i + \varepsilon_i \quad (6.3)$$

[10] http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.368.2628&rep=rep1&type=pdf

Where, for the *i*th fund at time March 2012, ∂_i is the annual volatility of monthly returns, β_i is the systematic risk computed, individually, with respect to the CAPM model using the Dow Jones World Index return as the market portfolio and US T-bill sec market 3 months as the risk free rate of the *i*th fund. The other variables are as specified for equation (6.1).

3.2.1 Legal Settings and mutual fund Risk Taking Behavior

Consistent with the effect of legal settings on the risk-taking behavior of Islamic and conventional mutual funds, there is no study in this way. For instance, earlier study finds that corporations in countries with common law and market-based financial systems have less risky financing patterns, and that the better protection of equity and creditor rights is also associated with less financial risk (Claessens et al., 2000). But, will law impact the risk-taking behavior of mutual funds? One might believe that information asymmetry is more pronounced in countries with weaker legal settings, and therefore fund managers have a spontaneous incentive to take more risk. Nevertheless, in developed countries with stronger quality of legal institutions, we argue that investors and fund managers are, typically, less risk averse since their rights are more protected and there is less risk of expropriation and of contract repudiation. Therefore, we believe that in such countries management companies will offer mutual funds that are more likely to be risky.

[Insert Table 6.7 Here]

[Insert Table 6.8 Here]

The data indicate in Models 13 in Table (6.7) and Models 17 in Table (6.8) positive robust effects of country legality Index on fund return volatility and systematic risk (significant at the 1% level) of Islamic and conventional funds. We note also from Model 17 in Table (6.8) a robust differential impact of legality on the systematic risk of Islamic versus conventional funds (significant at the 5% level). An improvement in legal conditions such as from Audi Arabia to France, for example, gives rise to an increase in fund return volatility (systematic risk) of conventional funds by 0.72% (5.93%). Likewise, Model 15 in Table (6.7) and Model 19 in Table (6.8) show conventional funds in common legal origin countries have higher return volatility and systematic risk, whereas conventional funds in Islamic legal origin countries have lower risk-taking behavior. We also note differential effects of legal origin on the risk-taking of Islamic funds. Indeed, in countries with common and/or Islamic legal origin, the volatility and systematic risk of Islamic funds are lower.

The components on the country legality index (corruption, efficiency of the judiciary and rule of law) have mostly robust positive effects on the return volatility and systematic risk of conventional mutual funds (Models 14-16 in Table (6.7) and Models 18-20 in Table (6.8)). For instance, when we break out corruption from other components we find that corruption has at the 1% level in Model 15 (Table (6.7)) and at the 10% level in Model 19 in Table (6.8), respectively, significant positive effects on the conventional fund return volatility and systematic risk. Similarly, Model 15 in Table (6.7) and Model19 in Table (6.8) show robust differential impact of corruption on Islamic fund return volatility and systematic risk versus conventional funds (significant at 1% level). These differential effects imply that Islamic funds will have higher volatility and systematic risk in countries with higher corruption. This result might be explained such that Islamic funds are typically more risk averse than conventional funds, and therefore only corrupt Islamic fund managers will try to take riskier actions in their management.

3.2.2 Culture and mutual fund Risk Taking Behavior

Earlier studies show risk taking of managers will be higher for banks and domestic firms in countries with low uncertainty avoidance, low tolerance for hierarchical relationships, and high individualism (Kanagaretnam et al., 2011; Griffin et al., 2012; Mihet, 2013: Frijns et al., 2013). However, banks do not control for institutional variables such as corporate governance, bankruptcy protection, efficiency of judiciary system, transparency, and corruption, which have shown to be affected by national cultural norms and which could at their turn affect corporate risk-taking (Kanagaretnam et al., 2011). Better institutional governance has been shown to encourage greater firm risk-taking (Laeven et al. 2009; Houston et al. 2010; Li and Zahra 2012). High uncertainty avoidance reflects a weak level of risk tolerance in countries. Thus, we predict that uncertainty avoidance will negatively affect risk-taking. Likewise, countries with a low Power Distance, which have a weak tolerance for hierarchical relationships, tend also to be more egalitarian. Such cultures have stronger legal systems that entitles all to equal protection under the law. We expect that Power Distance will be negatively associated with corporate risk-taking in the case of mutual funds. We further hypothesize that masculinity versus femininity Index would be negatively related to risk-taking behavior of mutual funds. Countries with lower masculinity versus femininity Index are more competitive. In such culture, there is less information asymmetry, and therefore fund managers will perform in a way to align their interests with those of investors.

Tables (6.7) and (6.8) analyze the relation between Hofsted's cultural dimensions and the risk-taking behavior of Islamic and conventional funds. Indeed, Model 14 and 16 in Table (6.7) show robustly that conventional fund managers from more competitive countries with lower Power Distance, Uncertainty Avoidance and higher Masculinity, have higher volatility. The data do not indicate any significant differential effect of cultural dimensions between Islamic and conventional funds. Likewise, Models 18 and 20 in Table (6.8) show that Uncertainty Avoidance has the most statistically and economically significant negative effect on the systematic risk of conventional funds (at a significant 1% level). The economic significance is such that a move from Saudi Arabia to France gives rise to a decrease of the conventional fund systematic risk by 0.08%. Similarly, we note from Models 18 and 20 in Table (6.8) differential effects of Hofsted's cultural dimensions between Islamic and conventional fund systematic risk. These differential effects show that Islamic fund systematic risk will be higher for managers from countries with higher Power Distance, lower Uncertainty Avoidance and higher Masculinity, but this impact is significant only at a 10% level.

3.2.3 Political Risk and mutual fund Risk Taking Behavior

Political Risk implies the possibility that political unrest, i.e. government action, social tension, terrorism or bureaucratic inefficiencies, can have a negative effect on investments. Typically, "Even if a country's economy is strong, but the political climate is unfriendly (or becomes unfriendly) to outside investors, the country may not be a good candidate for investment"[11]. At the same time, investors can make money in times of discontent and political struggle. However, in such political conditions, legal system is weak and fund managers have to better control the risks because the outcome of a political risk could drag down investment returns or even go so far as to remove the ability to withdraw capital from an investment. Governments drive policy and policy drives to the risk taking level in investment. Thus, we expect fund managers to take less specific and systematic risk in countries with strong political risk.

[Insert Table 6.9 Here]

[Insert Table 6.10 Here]

[11] http://www.investopedia.com/articles/stocks/08/country-risk-for-international-investing.asp

In Tables (6.9) and (6.10), the data provide strong support for our predictions. Indeed, Models 21 in Table (6.9) and Model 29 in Table (6.10) show, respectively, that political risk has statistically robust negative effect on systematic risk and return volatility of conventional funds (at 1% level of significance). Likewise, the differential effect of political risk index in Models 21and 29shows the return volatility and systematic risk of Islamic funds are higher in countries with lower political risk. For instance, a move from Saudi Arabia to France gives rise to a higher conventional fund return volatility by 0.02% and higher systematic risk by 0.16% by virtue of the role of political risk, all else being equal. Similarly, we note from Models 22-28 in Table (6.9) and Models 30-36 in Table (6.10) that the components of political risk index have statistically and economically significant effects on the risk-taking behavior of conventional funds (mostly at a significant 1% level). We argue that it is worth considering, for example, whether government stability matters separately on its own, controlling for a variety of factors including fund manager characteristics and specific fund features. Thus, we note that the fund volatility and systematic risk of conventional and Islamic funds will be higher in countries with lower investment profile risk, higher religious tensions, lower internal and external conflict risks, higher bureaucracy quality, socioeconomic conditions and government stability.

Overall, we note that these findings lend robust support to our working predictions that legal settings, culture and political risk all matter for the risk-taking behavior of conventional and Islamic mutual funds across countries. These results are robust to the inclusion and/or exclusion of other control variables including market conditions, fund manager characteristics and specific fund features. Similarly, some of these control factors have significant and economic effect on the mutual funds' risk-taking behavior.

3.3 Control Variables

In this section, we briefly discuss the effects of each of additional control variables pertaining to economic conditions, investor share type, fund manager characteristics, including qualifications, experience and team size as well as fund-specific features such as fund size, age, payment share type, among other control factors.

3.3.1 Economic conditions

International investing can, usually, be a powerful way to boost the performance of your portfolio. However, investing in foreign markets also involves risks that can sometimes be much greater, or at least more complex, than the risks that investors typically face when

investing at home[12]. In an international context mutual funds can be set up offshore to benefit from an important tax advantage. Indeed, Models 1, 3 and 4 in Table (6.5), Models 6-8 and 10-11 in Table (6.6), Models 13 and 15 in Table (6.7) and Models 17-18 in Table (6.8) show significantly (at 5% level) for offshore conventional funds, the performance is lower and the risk-taking behavior is higher. This finding might be due to that investors in offshore funds, benefiting from tax-lowering entities, have less pronounced concern among the timing of performance. Thus, offshore fund managers are more likely to have lower performance and to take excessive risk. In contrast, we note from Models 1 and 4 in Table (6.5) and Models 17-19 in Table (6.8) robust differential effects between Islamic and conventional funds that shows the performance is higher and the systematic risk is lower of offshore Islamic funds (at a significant 5% level). This finding is consistent with the idea that Islamic fund managers are typically risk averse (even if they are offshore, they remain less likely to take excessive risk), and therefore their tax advantage will enhance their performance.

With regard to GNP per capita as a proxy of country economic conditions, Kanniainen and Keuschnigg (2004) find that, in the boom periods, fund managers are short supply relative to investors who contribute in different asset classes. Therefore, a good economic conjuncture might imply higher demand of funds, and then higher net asset value, i.e. higher performance. Nevertheless, prior study does not find evidence that GDP per capita matter for the performance of conventional fund (Ferreira et al., 2013). Similarly, despite of the statistically significant relation between GNP per capita and performance, our data indicate in Tables (6.5) and (6.7) no evidence that a country's degree of economic development as measured by GNP per capita is robustly related to fund performance. The relation is different according to the used control variables (positive when we control in Model 2 (Table (6.5)) for the efficiency of the judiciary and negative in Models 3 and 4 (Table (6.5)) and Model 11(Table (6.6)) when we control for the corruption and law and order). Likewise, Models 15 and 16 in Table (6.7) show no evidence for the effect of GNP per capita on the conventional and Islamic fund volatility. In contrast, Models 17 and 19 show a robust negative relationship between GNP per capita and the systematic risk of conventional funds (at a 5% level of significance).

Likewise, we assess whether religion beliefs matter for the performance and risk-taking behavior of mutual funds. Over the last years, more and more scholars have been using conventional economic methods to understand the way in which religion relates to the

[12] http://internationalinvest.about.com/od/globalmarkets101/a/countryresearch.htm

economy in particular. For instance, Weber (2002) argues that Protestant work ethic gave rise to the development of capitalism through its impact on belief systems in Northern European countries, Britain, Germany and the Scandinavian. This finding was critical to the rise of many studies on the effects of religious beliefs on the economy. Earlier study finds that in countries with low Protestant (or high Catholic) population conventional mutual funds have higher total and idiosyncratic return volatilities local, and shows religious beliefs affect the investment decisions of fund managers (Shu et al., 2012).

Indeed, Models 1, 3 and 4 in Table (6.5) and Models 6-8 and 10-11in Table (6.6) show significant differential effects of Muslim, Christian, Hindu and other religions between the performance of Islamic and conventional funds. The economic significance is such that the Model 4 predicts that a move from Saudi Arabia (Muslim in percentage: 100) to France (Muslim in percentage: 7.5), for example, gives rise to an increase in the performance of Islamic funds by 1.39% versus conventional funds. Likewise, Model 4 inTable (6.5) and Models 15-16 in Table (6.7) show, respectively, for conventional funds in countries with higher percentage of Hindu the performance will be lower and the fund return volatility will be higher. Therefore, Islamic mutual fund performance and risk-taking behavior might be affected by religious beliefs as these beliefs are associated with risk attitudes of individuals, which in turn may collectively affect the management actions of fund managers who live among them.

3.3.2 Fund manager characteristics

Several theories of reputation suggest that managers' career and skill concerns might affect their decisions. Human capital theory stipulates that factors like education, experience and professional certifications improve skill sets of workers and therefore their performance (Levin and Kelley, 1994; Schultz, 1975; Becker, 1964). However, capital markets theory suggests that this evidence may be irrelevant in the management of mutual funds (Philpot and Paterson, 2006). The data indicate in Models 1-4 in Table (6.5) and Models 5-7 and 9-10 in Table (6.6) that conventional fund managers with higher university degree (PhD-trained) and/or legally training have higher performance than MBA and/or bachelor-trained managers. Therefore these findings support the human capital theory which believes that persons who have excelled in school will, certainly, excel in their work. However, we note from Models 1-2 in Table (6.5) and Models 5, 9 and 12in Table (6.6) a differential significant and negative effect of legally and Islamic-training on the performance of Islamic funds. This result might be explained by the idea that Islamic fund managers have already a limited investment

universe by the sector selection criteria. The fact that their fund managers are legally and/or Islamic-trained will further reduce their investment universe, since they will be too strict in their management. Therefore, Islamic funds would have lower performance.

Similarly, earlier study shows fund managers with a high qualification degree take more specific and systematic risk, since they know that taking higher specific risk will be compensated by incentive fees and systematic risk will be compensated in the market (Brown and al., 2000; Golec, 1996). Nevertheless, Ross (2004) demonstrates that there is not any incentive contract that might induce expected utility maximizer to be more risk-taker. Similarly, Andreu et al. (2012) show that managers who gather MBA and CFA degrees show less extreme and more stable risk levels and investment styles. Indeed, Models 21-28 in Table (6.9), Models 18 and 20 in Table (6.8) and Models 29-36 in Table (6.10) show statistically robust effects of education degree of conventional fund managers. There are no robust differential effects between Islamic and conventional funds. These findings stipulate that conventional and Islamic fund managers with higher education degree (PhD-training) and/or legally-training have lower fund return volatility and systematic risk. However, we note from Models 18 and 20 in Table (6.8) and Models 29-36 in Table (6.10) a differential robust and positive effect of legally-training on the systematic risk of Islamic funds. For instance, Shu et Yeung (2009) find that the level of risk-taking by mutual fund managers varies reliably with local religious beliefs.

Consistent with the impact of work experience, Porter and Trifts (2012) find that fund managers with more relevant average work experience are more likely to have better market-adjusted return. They might be more confident in their actions of management. Indeed, the data in Model 4 in Table (6.5) show a quite significant positive (negative) effect of work experience on the performance of conventional (Islamic) funds (at a significant 10% level). Likewise, other studies show fund managers with more relevant average work experience are more likely to take more excessive risk. Avery and Chevalier (1999) posit an increase in risk over time, arguing that as managers gain experience they obtain more precise knowledge about, and confidence in, their own abilities. Despite of the statistically significant effect of experience, we find no evidence that the work experience has a robust effect on the risk-taking behavior of Islamic and conventional funds. When we control for legal, economic conditions and/or culture, we note from Model 16 in Table (6.7) and Model 19 in Table (6.8) robust negative (positive differential) effects of experience on the risk-taking behavior of

conventional (Islamic) funds, whereas we note from Model 28 in Table (6.9) and Models 30, 33, 35 and 36 positive effect when we control for political risk.

A part from overall fund manager characteristics, there is evidence that conventional solo-managed funds have better performance than team-managed funds for both of an international sample of funds (Ferreira et al., 2013) and US mutual funds (Chen et al., 2004). Indeed, the data show in Model 4 in Table (6.5) a quite significant and negative effect of team size on the performance of conventional funds. However, Model 4 in Table (6.5) and Models 6-8, 10 and 12 in Table (6.6) indicate robust positive differential effect of team size on the performance of Islamic funds versus conventional funds. Therefore, the effect of team size depends on the mutual fund type. These finding support the idea that conventional funds with higher team size have more conflicts among managers which might have a negative effect on their performance. Nevertheless, the larger the team size the higher the performance of Islamic funds. This finding might be due to that a team might be more dynamic to select promptly lawful investment, and therefore to enhance the performance.

Similarly, earlier studies find that mutual funds characterized by high-incentive contracts deliver stronger performance (Kahn and Sherer, 1990), and the superior risk-adjusted return remains persistent (Massa and Patgiri, 2009). Besides, agency theory posits that principals have to give higher compensation fees to be more able to monitor agents and elicit the desired behavior. Thus, investors have to induce fund managers to establish a contract more suited to their own interest. Nevertheless, Woolley (2010) reports that the disappointing performance of mutual funds is largely explained by the high fees charged all the alpha, or excess returns, hedge funds achieve from investing the funds is absorbed in fees, leaving the investors with the residual of indexed performance at best. It is also shown that performance feesinduces managers to gambling (Woolley, 2010) by taking excessive risk that might reduce the funds' probability of survival (Massa and Patgiri, 2009). Besides, investors are often convinced that they will get greater performance from a fund with low fixed fees (Golek, 1996). Ginbalatt and Titman (1989) find evidence that mutual fund managers attempt to hedge and maximize their incentive fees by raising fund leverage as much as possible. More recent studies prove that fund managers appear to take more risk, in terms of tracking error, systematic and unsystematic risk, when they face higher effective fees (Chen et al., 2012) and risk adjustment is more pronounced among funds with high expense ratios in large fund families (Kempf and Ruenzi, 2008). Indeed, Model 4 in Table (6.5) shows a quite robust positive effect of performance fees on the performance of

conventional fund (at a significant 10% level) with a robust differential negative effect on the performance of Islamic funds (at a significant 5% level). Likewise, Model 21 in Table (6.9) and Model 36 in Table (6.10) show robust positive effects of performance fees and fixed management fees on the return volatility and systematic risk of conventional funds. However, Model 36 in Table (6.10) shows a robust and negative differential impact of performance fees on the systematic risk of Islamic versus conventional funds (at 1% level of significance). Therefore, we can conclude that the effects of fees on the performance and risk-taking behavior of mutual funds depend on their type and risk attitude.

Likewise, we control the effects of fund managers characteristics by using the number of Islamic funds under management. Model 3 in Table (6.5) and Models 7and 11 in Table (6.6) show robustly the higher the number of Islamic funds under management the lower the performance of conventional funds. Thus, the evidence indicates that the number of Islamic funds under management plays a prominent role in decreasing their performance. For example, in Model 11 in Table (6.6), a 1% increase in the number of Islamic funds under management decreases the performance of conventional funds by 0.003%.

3.3.3 Specific fund features

In this section, we discuss only the fund features that have significant effect on the performance and/or risk-taking behavior of Islamic and conventional funds. Consistent with the role of fund size, this variable still to be one of the most used variables in conventional mutual fund research, and his impact on performace still puzzles academics (Ferreira et al., 2013). Indeed, the most of all specifications in Tables 6.5 and 6.6 show statistically robust positive effect of fund size on the performance of conventional funds (consistent with the results of Ferreira et al. (2013), Massa and Patgir (2009) and Chen et al. (2004)). However, the data show a negative differential effect of fund size on the performance of Islamic funds. This empirical result might be due to that Islamic funds are not large enough. Similarly, all specifications in Tables 6.7 - 6.10 show statistically robust negative impact of fund size on the risk-taking behavior of conventional and Islamic funds (with robust differential effect on Islamic versus conventional funds).

Similarly, we use the fund age as a control variable. Older funds might be characterized by high systematic risk (Golec, 1996) and high fund return volatility. Ferreira et al., (2013) show that younger non-US funds are better able to detect good investment opportunities, and therefore have better performance. Thus, Model 5 in Table 6.6 shows a

positive relationship between the age and the performance of conventional and Islamic funds (consistent with the result of Massa and Patgiri, 2009). Similarly, we note from Table 6.7 - 6.10 that the most of all specifications shows robust positive effect of fund age on the risk-taking behavior of Islamic and conventional funds (with robust negative differential effect between Islamic and conventional funds). We also use the minimum required invested amount as control variable. Our data show in Models 22-28 in Table 6.9 a robust negative effect of the minimum required investment on the conventional and Islamic fund return volatility. These findings imply that older mutual funds will be induced to reduce their risk-taking to improve their survival probability.

Likewise, we use the payment share type as a fund's feature which distinct accumulation from income share type. Indeed, the data in Table 6.7 - 6.10 show robust positive effects of accumulation share type on the volatility and systematic risk of conventional funds. Generally, there is, in the context of mutual funds, a formal arrangement in which an investor contributes a specified amount of money to the fund on a periodic basis[13]. By doing so, investors accumulate a larger investment in the fund through their contributions and the increase in value of the fund's portfolio which can induce them to take more risk. However, we note from Tables 6.7 – 6.10 differential negative effects of accumulation share type on the risk-taking behavior of Islamic funds.

Likewise, Massa and Patgiri (2009) show that lagged volatility affects significantly positively the fund return volatility of conventional mutual funds. Haddad et al. (2009) find evidence that there is a significant relationship between volatility persistence of each Islamic mutual fund portfolio and its systematic risk, but the systematic risks of different portfolios tend to move in a different direction during the boom period. Indeed, Models 13and 14 in Table 6.7, Models 17 and 18 in Table 6.8, Models 21-28 in Table 6.9 and Models 29-35 in Table 6.10 show a robust positive impact of lagged volatility on the risk-taking behavior of conventional and Islamic funds (without significant differential effect).

Similarly, we use lagged alpha to control for the effect of specific fund features. Poor lagged alpha makes a worse fund managers' reputation, and therefore decreases future investment opportunities (Golec, 1996). Likewise, the evidence of stronger performance persistence was usually proved for the most poorly performing US mutual funds (Hendricks et al., 1993; Grinblatt and Titman, 1994; Brown and Goetzmann, 1995; Cahart, 1997; Massa

[13] See: http://aiicorep.wordpress.com/cash-accummulation-plan/

and Patgiri, 2009; Ferreara et al., 2012). Nevertheless, this persistence is not confirmed for samples outside the USA (Dahlquist et al., 2000; Otten and Bams, 2002; Ferreira et al., 2013). Indeed, the effect of lagged alpha seems to be weaker. Indeed, only Model 3 in Table 6.5 shows robust positive effect of lagged alpha on the performance of conventional funds, but a robust negative differential effect on the performance of Islamic funds (at a significant 1% level). Consistent with risk-taking behavior, we note from Model 18 in Table 6.8 and Model 30 in Table 6.10 a robust positive relation between the lagged alpha and the systematic risk of conventional funds (at 1% level of significance). Models 21-28 in Table 6.9 indicate that the differential effect of lagged alpha is statistically significant on the return volatility of Islamic versus conventional funds (mostly at a significant level of 1%). Thus, we conclude that the effects of lagged alpha on performance and risk-taking behavior seem to be weaker.

Overall, we note that some of the control variables are statistically significant, but not nearly as robust as the legal settings, culture and political risk. The results are robust to inclusion or exclusion of most of the countries in the data and potential outliers. One exception to the robustness of results to exclusion of countries (for example, we excluded Malaysia) is that where the number of observations is significantly reduced by excluding countries, some of the results reported are not robust. Excluding countries with just one fund did not affect the primary results reported.

4. Conclusion

Typically, investors find that it is hard to distinguish performance that is attributable to true investment skill from that due to excessive risk-taking. We argue that country's conditions analysis is relevant to build and monitor an international portfolio. "Investors that use the many excellent information sources available to evaluate country risk will be better prepared when constructing their international portfolios"[14].

Based on 607 Islamic and conventional mutual funds around the world, the present cross-sectional analysis assesses whether law, culture and political risk affect their performance and risk-taking behavior. Indeed, the data show in developing countries with poor legal settings, higher corruption and political risk the performance of Islamic and conventional funds will be higher. This finding might be explained in three main ways. First,

[14] http://www.investopedia.com/articles/stocks/08/country-risk-for-international-investing.asp

Islamic and conventional funds in our sample are managed at mostly in the Meadle East and Malaysia where are the most important investors. Thus, we believe that this advantage can explain their better performance. Second, the breach of laws rights enables corrupt countries to gain illegitimate economic advantage in international market. Third, one might argue that bribes are speed money that allows fund managers in developing countries to have private information on their investment, and thereby having higher short-term performance and sustaining incompetent fund managers. Some of these country's conditions have significant differential effects on the performance between Islamic and conventional funds.

Similarly, our empirical tests show the risk-taking behavior (return volatility and systematic risk) of Islamic and conventional funds will be lower in developing countries with lower legal settings, higher corruption and political risk. Thus, we conclude that investors and fund managers in these countries are typically more risk averse. In such poor legal and political conditions, fund managers have to better control the risks because the outcome of a political risk could drag down investment returns or even go so far as to remove the ability to withdraw capital from an investment.

We, then, extent our analyses and assess whether the components of legal and political Index have significant differential effects on the performance and risk-taking behavior of funds. For instance, the data shows the performance of conventional funds is higher in countries with higher investment profile risk, lower religious tension, higher internal and external conflict risk, lower bureaucracy quality, weaker socioeconomic conditions' risk and government instability risk. However, the performance of Islamic funds is higher in countries with higher investment profile risk, higher religious tension, higher socioeconomic conditions risk, higher bureaucracy quality and weaker government instability risk.

Consistent with Hofstede's cultural dimensions, Islamic and conventional fund managers from societies with lower power distance have weaker performance. Likewise, the conventional fund return volatility will be higher for managers from more competitive societies with lower uncertainty avoidance and power distance. Overall, the data show strong and significant effects of law, political risk and culture on fees, performance and risk-taking behavior of mutual funds.

The country's conditions matter for the performance and risk-taking behavior across countries would be a fruitful way for future research. For instance, we believe that it could be important to assess the role of taxation in the incentive fees of fund managers, and therefore in

explaining their performance and risk-taking behavior. Studies in this way enable investors and fund managers to understand the opportunities and risks that they have to consider into their investment decision-making process.

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Table 6.1 Variable definitions	
This table defines the variables used in our regression analyses. Summary statistics are indicated in Tables 2 and 3.	
Variable	**Explanation and Sources**
Endogenous Variables	
Risk-Adjusted return	Alpha's Jensen is calculated, individually, for each fund with monthly return data over January 2011-March 2012 using the CAPM Model with US T-BILL SEC MARKET 3 MONTH as the risk free rate and the Dow Jones World Index return as the market portfolio. Our choice of CAPM model is justified by the fact that Investors are not interested in the returns of a mutual fund in isolation but in comparison to some alternative investment. To be considered, a fund should meet some minimum hurdle, such as a return on a completely safe, liquid investment available at the time. Such a return is referred to as the "risk-free rate" and is usually taken to be the rate on 90-day Treasury bills. A comparison with this benchmark would show whether or not investing in XYZ Fund would have been better than investing in small cap stocks through the index fund. **Source:** Total net asset values are collected from Morningstar Direct, Bloomberg and Datastream databases.
Fund Return Volatility	The standard deviation of monthly fund returns for the 12 months in a calendar year is calculated and used as a proxy of fund volatility. Investors are interested not only in funds' returns but also in risks taken to achieve those returns. We consider the risk as the uncertainty of the expected return, and uncertainty is generally equated with variability (Fama, 1976). Investors demand and receive higher returns with increased variability, suggesting that variability and risk are related (Simons, 1998).
Systematic risk	This variable is beta which is calculated, individually, for each fund with monthly return over January 2011- March 2012 using CAPM model with US T-BILL SEC MARKET 3 MONTH as risk free rate and Dow Jones World as market portfolio.
Exogenous Variables	
Legal and political conditions	
Country legality Index	The legality proxies are ranked on a scale from zero to 10, where a higher number means that legal institutions are more executive. The average correlation between a pair of the legality proxies (Efficiency of Judiciary and Legality) is 0.801 (Berkowitz et al., 2003). This high correlation creates multicollinearity problems when log GNP per capita is regressed on the legality proxies. Therefore, following standard practice, Berkowitz et al. (2003) aggregate the individual legality proxies into a single country legality index using principal components analysis. The First component accounts for 84.6 percent of the total variance, and is given by Legality = 0.381*(Efficiency of Judiciary) + 0.578*(Rule of law) + 0.503*(Absence of Corruption) + 0.347*(Risk of Expropriation) + 0.384*(Risk of Contract Repudiation). Scale ranges from 9.39 (Indonesia) to 20.83 (Luxembourg) The log of this variable is used. Source: An Extract from International Country Risk Guide, Copyright, 1984-January 2011, The PRS Group, Inc. http://www.prsgroup.com/ICRG.
Rule of law	Scales from 0 to 10 are assessed separately, with each sub-component comprising zero to three points. Lower score reflects weaker conditions of rule of law. The Law sub-component is an assessment of the strength and impartiality of the legal system, while the Order sub-component is an assessment of popular observance of the law. Thus, a country can enjoy a high rating 10 in terms of its judicial system, but a low rating 0 if it suffers from a very high crime rate and the law is routinely ignored without effective sanction (for example, widespread illegal strikes). An Extract from International Country Risk Guide, Copyright, 1984-January 2011, The PRS

	Group, Inc. Source: http://www.prsgroup.com/ICRG_TableDef.aspx. For south Korea (concerning conventional funds) we have extracted data from https://opennet.net/research/profiles/south-korea
Legal origin	This variable is inspired form La Porta et al., (2008) and was too used by earlier studies (Schleifer et al., 1999; Cumming and Johan, 2009; Johan and Najar, 2012). In our analysis, we include Islamic Law origin to control the effect of this variable on endogenous variables. We use it as dummy variables equal to 1 if the fund is implemented in county of Islamic, civil or common legal origin.
Efficiency of judiciary system	Assessment by investors of efficiency of the legal environment as it affects business. We use scale from zero to 10 with lower scores imply weaker legal conditions of investment. Source http://www.prsgroup.com/ICRG.
Corruption perception Index	This index ranks countries based on how corrupt their public sector is perceived to be. A country's score indicates the perceived level of public sector corruption on a scale of 0 to 10, where 0 means that a country is perceived as highly corrupt and 10 means that a country is perceived as very clean. A country's rank indicates its position relative to the other countries included in the index. Source: http://www.prsgroup.com/ICRG_TableDef.aspx
Political risk Index	The likelihood that government or bureaucratic inefficiencies, societal tensions, inadequate legal system or international tensions will cause adverse developments for an insurer. Scale from zero to 10, with the lower the political risk Index point total, the higher the risk. There are six components of political risk Index that will be used in this study (corruption and Rule of law which are defined above are, also, components of political risk): *Investment Profile* is an assessment of factors affecting the risk to investment. The risk rating assigned is the sum of three subcomponents: Contract Viability or Expropriation, Profits Repatriation and Payment Delays. A score of 10 points equates to very low profile risk and a score of 0 points to too high risk. *Religious Tensions* may stem from the domination of society and/or governance by a single religious group that seeks to replace civil law by religious law and to exclude other religions from the political and/or social process; the desire of a single religious group to dominate governance; the suppression of religious freedom; the desire of a religious group to express its own identity, separate from the country as a whole. The risk involved in these situations range from inexperienced people imposing inappropriate policies through civil dissent to civil war. The higher the score, the higher the religious tension. *Internal Conflict*: The highest rating is given to those countries where there is no armed or civil opposition to the government and the government does not indulge in arbitrary violence, direct or indirect, against its own people. The risk rating assigned is the sum of three subcomponents: Civil war, Terrorism and civil Disorder. A score of 10 points equates to very low risk and a score of 0 points to very high risk. *External Conflict* is an assessment both of the risk to the incumbent government from foreign action, ranging from non-violent external pressure (diplomatic pressures, withholding of aid, trade restrictions, territorial disputes, sanctions, etc) to violent external pressure (cross-border conflicts to all-out war). The risk rating assigned is the sum of three subcomponents:War, Cross-Border Conflict and Foreign Pressures. A score of 10 points equates to very low risk and a score of 0 points to very high risk. *Bureaucracy Quality* is another shock absorber that tends to minimize revisions of policy when governments change. Therefore, high points (10) are given to countries where the bureaucracy has the strength and expertise to govern without drastic changes in policy or interruptions in government services. *Socioeconomic Conditions* is an assessment of the socioeconomic pressures at work in society that could constrain government action or fuel social dissatisfaction. The risk rating assigned is the sum of three subcomponents: Unemployment, Consumer Confidence and Poverty. A score of 10 points equates to very low risk and a score of 0 points to very high risk. *Government Stability* is an assessment both of the government's ability to carry out its declared program(s), and its ability to stay in office. The risk rating assigned is the sum of three subcomponents: Government Unity, Legislative Strength and

	Popular Support. A score of 10 points equates to very low risk and a score of 0 points to very high risk. **Source:** http://www.prsgroup.com/ICRG_Methodology.aspx
Cultural conditions	Hofstede's three dimensions of culture are used as cultural conditions proxies. **Source:** http://www.geerthofstede.nl/research--vsm. We use the following five cultural dimensions: *Uncertainty avoidance Index*: expresses the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. The fundamental issue here is how a society deals with the fact that the future can never be known. Countries exhibiting strong UAI maintain rigid codes of belief and behaviour and are intolerant of unorthodox behavior and ideas. Weak UAI societies maintain a more relaxed attitude in which practice counts more than principles. *Masculinity versus feminity Index*: The masculinity side of this dimension represents a preference in society for achievement, heroism, assertiveness and material reward for success. Society at large is more competitive. Its opposite, femininity, stands for a preference for cooperation, modesty, caring for the weak and quality of life. Society at large is more consensus-oriented. *Power Distance Index:* This dimension expresses the degree to which the less powerful members of a society accept and expect that power is distributed unequally. The fundamental issue here is how a society handles inequalities among people. People in societies exhibiting a large degree of Power Distance accept a hierarchical order in which everybody has a place and which needs no further justification. In societies with low Power Distance, people strive to equalize the distribution of power and demand justification for inequalities of power.
Country's economic conditions	
GNP per capita	The GNP per capita of the country in which the fund is domiciled. We use the logarithm of this variable. **Source:** https://opennet.net/research/profiles.
Domicile type	A dummy variable equal to 1 for a fund located offshore. An offshore fund is a collective investment scheme domiciled in an Offshore Financial Center. It is typically sold exclusively to 'foreign' investors (those not of the domestic fund sponsor's country of origin). This dummy variable is equal to 0 for a domestic fund. A domestic fund means a commingled investment fund which only invests in securities originating from a single country.
Religion beliefs of population	The number of Muslims, Christian (including Protestant and Catholic), Hindu and other religions in percentage per country in which the fund is managed. **Source:** http://www.nationmaster.com/graph/rel_isl_sun_to_mus-religion-islam-sunni-to-muslim and https://www.cia.gov/library/publications/the-world-factbook/geos/iz.html
Fund Manager Characteristics: **Source: Hand-Built from fund factsheets and other websites such as management companies' websites, Linked'In, trustnetmiddleeast, zoominfo, etc.**	
PhD-trained Fund Managers	A dummy variable equal to 1 for PhD-training
MBA/CFA-trained Fund Managers	A dummy variable equal to 1 for MBA/CFA-training
Bachelor-trained Fund Managers	A dummy variable equal to 1 for Bachelor-training
Islamic- trained Fund Managers	A dummy variable equal to 1 for Islamic- training
Legally- trained Fund Managers	A dummy variable equal to 1 for Legally- training
Average Years of Experience	Average number of years relevant work experience of fund managers at the time March 31th, 2012. We use the log of this variable in the empirical tests to consider a diminishing effect with larger numbers.

Team Size	The number of fund managers who make investment decisions for the fund (usually one or two). Source: Morningstar Direct and Bloomberg databases.
Number of Islamic funds under management	The number of Islamic funds under the management. This variable is hand-built from each management company website. We use the log of this variable in the empirics to account for the diminishing effect with larger numbers.
Performance Fees %	The variable compensation fees of fund managers as a percentage of the performance of the fund.
Fixed Management Fees %	The fixed compensation fees of fund managers raised from investors.
Fund Features	
Fund TNA(millions)	We compute the total net asset value of each fund in US dollar since inception date to 31 March 2012. We use the logarithm of this variable in the empirics to consider the diminishing effect with larger numbers.
Family TNA(millions)	We compute the fund family size as the total net asset value managed by the same manager. We measure the family size as the logarithm of the TNA managed by the same fund manager [ln(familyTNA)].
Fund age (yearly)	The fund age is the number of years the fund has traded. We measure the age as the number of year when the fund is quoted since its inception date to 31 March 2012.
Minimum initial investment (in millions of dollars)	It is the minimum required invested amount to become a shareholder in the Islamic fund. **Source:** Bloomberg, Morningstar databases, and fund factsheets.
Investor share type	A dummy variable equal to 1 for institutional investors and zero for retail investor. **Source:** Bloomberg database and fund factsheets.
Payment share type	A dummy variable equal to 1 for a fund with option "income share class". This option would pay out all of the fund's net income to the investor in cash. This would allow the fund manager to use the money towards other investments or living expenses. This type of share typically attracts those investors looking for a steady stream of income rather than capital appreciation. The holders receive their portion of all income created in the portfolio plus any additional returns on the stocks' par value at the time of the fund's dissolution. This dummy variable equal to 0 for a fund with option "accumulation share class". Buying the accumulation share class would mean that net income of investors from Fantastic Fund would be reinvested back into the fund, with no charge to reinvest. **Source:** Bloomberg database and fund factsheets. In the context of mutual funds, a formal arrangement in which an investor contributes a specified amount of money to the fund on a periodic basis. By doing so, the investor accumulates a larger and larger investment in the fund through his or her contributions and the increase in value of the fund's portfolio.
Lagged fund return volatility	The prior-year volatility of the fund as one of our control variables. We use the standard deviation of monthly fund returns for the 12 months in a calendar year prior to the reported date as a proxy as computed by earlier studies (Massa and Patgiri, 2009; Golek, 1996).
Lagged Risk-Adjusted Return	Lagged alpha's Jensen is computed, individually, for each fund with monthly return data over January 2010-December 2011 using the CAPM Model with US T-BILL SEC MARKET 3 MONTH as the risk free rate and the Dow Jones World Index return as the market portfolio. **Source:** Total net asset values are collected from Morningstar Direct, Bloomberg and Datastream databases.

Table 6.2 Summary of the data

This table summarizes the variables used as proxies of legal settings, political risk and cultural measures. Islamic and conventional funds are ranked by country in which are managed. At the same time, countries are classified as developed or developing countries.

	Total		**Bahrain**		**British Virgin I**		**Cayman Islands**	**France**	**Guernsey**		**India**		**Indonesia**		**Iraq**	**Ireland**		**Kuwait**	
	Conv[a]	Isl[b]	Conv	Isl	Conv	Isl	Isl	Isl	Conv	Isl	Conv	Isl	Conv	Isl	Conv	Conv	Isl	Conv	Isl
Number of Funds	285	322	4	2	1	2	1	2	1	4	2	3	28	31	1	1	12	5	14
Endogeneous Variables																			
Risk-Adjusted return	-0.01	0.01	0.03	0.08	-0.04	.	.	-0.16	0.04	-0.0005	-0.14	-0.13	0.10	0.11	-0.26	0.026	-0.09	-0.04	-0.08
Fund return volatility	0.19	0.16	0.19	0.14	0.20	.	0.0034	0.28	0.09	0.11	0.30	0.23	0.17	0.14	0.13	0.17	0.22	0.14	0.12
Systematic risk	0.77	0.60	0.28	-0.01	0.88	.	.	1.46	0.23	0.45	1.12	0.86	0.66	0.49	-0.26	0.83	0.88	0.26	0.30
Legality and political conditions																			
Legality Index	15.34	15.52	17.08	17.08	14.66	14.66	20.41	19.67	14.49	14.49	13.89	13.89	9.39	9.39	10.24	18.42	18.42	15.45	15.45
Efficiency of the judiciary	7.67	7.35	6.29	6.29	9.50	9.50	6.75	8	10	10	8	8	2.50	2.50	6.25	8.75	8.75	6.29	6.29
Rule of law	7.03	7.36	8.33		7.32	7.32	8.52	8.33	9.16	9.16	6.67	6.67	5	5	2.50	10	10	8.33	8.33
Corruption perception Index	4.67	4.91	5.10	5.10	7.1	7.1	5.82	7	7.80	7.80	3.10	3.10	3	3	2.50	7.50	7.50	4.60	4.60
Political risk Index	7.14	7.25	7.25	7.25	.	.	.	7.75	.	.	5.85	5.85	5.90	5.90	4.35	7.75	7.75	7.20	7.20
Investor profile	9.52	9.83	11.50	11.50	.	.	.	9	.	.	8.50	8.50	7.50	7.50	8	9.50	9.50	10.50	10.50
Religion tensions	3.74	3.98	3.50	3.50	.	.	.	7	.	.	2.50	2.50	1	1	1	5	5	4	4
Internal conflict	9.54	9.42	10	10	.	.	.	10	.	.	6	6	8.50	8.50	6	8.50	8.50	8.50	8.50
External conflict	10.11	10.00	11	11	.	.	.	8	.	.	9.50	9.50	10.50	10.50	8.50	11.50	11.50	11	11
Bureaucracy Quality	2.80	2.89	2	2	.	.	.	8	.	.	3	3	2	2	1.5	4	4	2	2
Socioeconomic Conditions	8.64	8.40	7	7	.	.	.	7	.	.	4.50	4.50	6.50	6.50	0.5	7.5	7.5	9	9
Government Stability	7.39	7.72	8	8	.	.	.	6.25	.	.	6	6	7.5	7.5	8	4.5	4.5	6	6
Cultural dimensions																			
Power Distance Index	84.89	81.80	80	80	40	40	45	68	35	35	77	77	78	78	95	28	282	80	80
Masculinity Index	59.81	59.58	52	52	62	62	68	43	66	66	56	56	46	46	70	52	52	56	56
Uncertainty Avoidance Index	49.64	53.74	68	68	46	46	13	86	35	35	4	4	48	48	85	35	35	68	68
Economic Conditions																			
GNP per capita	17159	2200	36587	3658	43366	43366	18060	42420	44600	44600	1125	1125	2427.62	2427.62	4589	51898	51898	57899	57899

		8		7															
Muslim %	58.91	59.16	85	85	0	0	0	7.50	0	0	13.40	13.40	88.22	88.22	97	0.49	0.49	85	85

	Luxembourg		**Malaysia**		**Pakistan**		**Qatar**	**Saudi Arabia**		**South Africa**		**Switzerland**	**South Korea**	**Sri Lanka**	**UAE**		**U.K**	**USA**	**singapore**
	Conv	Isl	Conv	Isl	Conv	Isl	Isl	Conv	Isl	Conv	Isl	Isl	Conv	Conv	Conv	Isl	Conv	Isl	Conv
Number of Funds	34	31	142	113	18	3	1	29	72	9	18	1	3	1	1	5	2	7	3
Endogenous Variables																			
Risk-Adjusted return	-0.05	-0.02	-0.02	-0.09	-0.03	0.16	-0.02	0.06	0.06	-0.03	-0.04	0.03	-0.01	-0.33	-0.01	0.15	-0.03	0.05	-0.06
Fund return volatility	0.24	0.17	0.20	0.17	0.12	0.26	0.15	0.18	0.11	0.22	0.20	0.18	0.31	0.15	0.23	0.18	0.23	0.13	0.25
Systematic risk	0.96	0.84	0.89	0.76	0.09	0.38	0.78	0.56	0.28	0.96	0.96	0.83	1.41	-0.41	0.30	0.18	1.17	0.55	0.78
Legality and political conditions																			
Legality Index	20.83	20.83	15.64	15.64	11.61	11.61	17.23	15.78	15.78	11.91	11.9	20.35	16	12.60	15.48	15.48	19.77	19.11	19.71
Efficiency of the judiciary	10	10	9	9	5	5	6.29	5.71	5.71	6	6	10	6	7	6	6	10	10	10
Rule of law	10	10	6.67	6.67	5.83	5.83	8.33	8.33	8.33	4.17	4.17	8.33	7	4.17	6.67	6.67	9.17	8.33	8.33
Corruption perception Index	8.50	8.50	4.30	4.30	2.50	2.50	7.20	4.40	4.40	4.10	4.10	8.80	5.40	4.17	6.80	6.80	6.67	7.1	7.5
Political risk Index	9.15	9.15	7.35	7.35	4.55	4.55	7.30	6.95	6.95	6.65	6.65	.	4.70	5.80	7.85	7.85	8.1	8.15	8.5
Investor profile	11	11	9.50	9.50	7.50	7.50	8	11	11	9.50	9.50	.	4	8.50	10	10	11.5	10	12
Religion tensions	6	6	4	4	1	1	7	3.50	3.50	5	5	.	6	2	4	4	6	9	4.5
Internal conflict	12	12	10	10	5.50	5.50	8	8.50	8.50	9.50	9.50	.	9	9	10	10	8.5	8	10.5
External conflict	10.50	10.50	10.50	10.50	8.50	8.50	7	8.50	8.50	10.50	10.50	.	5.50	11	11	11	8.50	8	10.50
Bureaucracy Quality	4	4	3	3	2	2	5	2	2	2	2	.	.	2	3	3	4	10	4
Socioeconomic Conditions	10	10	10	10	5	5	7	7.50	7.50	4.50	4.50	.	1.50	4.50	9.50	9.50	8.50	7	10
Government Stability	10	10	6.50	6.50	5	5	9.58	10	10	6.50	6.50	.	8	9.50	11	11	8.50	6.67	11
Cultural dimensions																			
Power Distance Index	40	40	104	104	55	55	80	95	95	49	49	34	60	72	80	80	35	40	74
Masculinity Index	46	46	68	68	50	50	53	60	60	63	63	70	39	35	53	53	66	62	48
Uncertainty Avoidance Index	70	70	36	36	70	70	68	80	80	49	49	58	85	53	68	68	35	46	8
Economic Conditions																			

GNP per capita	65361	65361	8161	8161	997	997	80440	15714	15714	5845	5845	76380	1014.28	2256	89895	89895	41594	48450	51352
Domicile type	0.77	1	0	0	0	0	0	0.10	0.04	0.11	0	0	0	0	0	0	1	0	0
Muslim %	2	2	60.40	60.40	96.35	96.35	95	100	100	1.50	1.50	4.40	0.04	7	76	76	2.7	1.4	16

[a] The symbole "Conv" refers to conventional funds.
[b] The symbol "Isl" refers to Islamic funds.

Table 6.3 Summary Statistics

[a]Test in Mean difference uses Satterthwaite method two-sample t test with unequal variances. The symbols ***, **, and * denote significance levels of 1%, 5%, and 10%, respectively.
[b]Test in Median difference test uses two-sample Wilcoxon rank-sum (Mann-Whitney) test assuming variances are unequal. The symbols ***, **, and * denote significance levels of 1%, 5%, and 10%, respectively.

VARIABLES	Islamic Funds			Conventional Funds			Conventional funds vs Islamic funds	
	N	Mean	Median	N	Mean	Median	Mean Diff[a]	Median Diff[b]
Endogeneous Variables								
Risk-Adjusted return	294	0.0112	0.001045	276	-0.0084	-0.0033	0.0197**	0.0043
Fund return volatility	300	0.1551	0.1678619	278	0.1942	0.1938	-0.0391***	-0.0259***
Systematic risk	294	0.6040	0.6345	276	0.7705	0.8020	-0.1665***	-0.1675***
Legal and Political Conditions								
Legality Index	322	15.5241	15.64106	285	15.3400	15.6411	0.1842	0*
Efficiency of judiciary	322	7.3495	8.75	285	7.6694	9	-0.3200*	-0.25**
Rule of law	322	7.3574	6.67	285	7.0303	6.67	0.3271	0***
Corruption perception Index	322	4.9047	4.3	285	4.6688	4.3	0.2360*	0***
Common Law	322	0.7516	1	285	0.7614	1	-0.0100	0
Civil Law	322	0.2485	0	285	0.2491	0	-0.0007	0
Islamic Law	322	0.3882	0	285	0.2526	0	0.1356***	0***
Political risk Index	314	7.2478	7.35	283	7.1433	7.35	0.1045	0
Investor profile	314	9.8344	9.5	283	9.5230	9.5	0.3114***	0***
Religion tensions	314	3.9761	4	283	3.7421	4	0.2341*	0
Internal conflict	314	9.4204	9.5	283	9.5424	10	-0.1220	-0.5***

External conflict	314	10.0016	10.5	283	10.1095	10.5	-0.1080	0
Bureaucracy Quality	314	2.8854	3	280	2.8018	3	0.0836	0
Socioeconomic Conditions	314	8.4029	9	283	8.6413	10	-0.2385	-1***
Government Stability	314	7.7221	6.5	283	7.3940	6.5	0.3281	0**
Culture Dimensions								
Power Distance Index	317	82.4527	95	218	86.1606	104	-3.7079**	-9
Masculinity Index	317	61.0568	62	218	59.9083	68	1.1485*	-6
Uncertainty Avoidance Index	317	52.2997	48	218	44.8853	36	7.4144***	12***
Country Economic Conditions								
GNP per capita	322	22008.12	8160.667	285	17159	8160.667	4849.122***	0***
Domicile type	322	0.1646	0	285	0.1298	0	0.0348	0
Muslim %	322	59.1564	60.4	285	58.9073	60.4	0.2491	0
Fund Manager Characteristics								
PhD-trained manager	322	0,0217	0,0000	285	0,0632	0,0000	-0,0414***	0***
MBA-trained manager	322	0,6273	1,0000	285	0,6877	1,0000	-0,0604*	0
Bachelor-trained manager	322	0,4130	0,0000	285	0,2456	0,0000	0,1674***	0***
Islamic-trained manager	322	0,0652	0,0000	285	0,0281	0,0000	0,0372**	0**
Legality-trained manager	322	0,0404	0,0000	285	0,0070	0,0000	0,0334***	0***
Average experience	322	13.7826	13	285	14.9566	15	-1.174**	-2***
Team size	320	1,4938	1,0000	285	1,5263	1,0000	-0,0326	0*
Number of islamic funds	321	9,3240	7,0000	285	9,0246	5,0000	0,2994	2**
Performance fees%	322	3.2780	0	285	5.0228	0	-1.7448***	0**
Management fees %	322	1.3690	1.5	285	1.4512	1.5	-0.0822*	0*
Fund Features								
Fund size	322	20973,5700	28,3751	285	1612,3140	24,9972	19361,256	3,3779
Family size	322	75303,2100	531,1272	285	11538,8800	423,1471	63764,33***	107,9801**
Age	322	7,0849	5,2347	285	6,6838	6,3534	0,4011	-1,1187
Minimum required investment	320	435113,9000	5000,0000	282	1575590,0000	1000,0000	-1140476,1*	4000***
Payment share type	322	0,6366	1,0000	285	0,4842	0,0000	0,1524***	1***
Investor share type	322	0,1335	0,0000	285	0,0772	0,0000	0,0564**	0**

Lagged volatility	296	0,1435	0,1490	251	0,1666	0,1630	-0,0231***	-0,0140**
Lagged alpha	293	0,0461	0,0364	249	0,0619	0,0651	-0,0157*	-0,0287***

Table 6.3 Correlations

This table presents two correlation matrices of the select variables. The first matrix is developed for conventional funds and the second is developed for Islamic funds. The symbol * denotes that correlation is significant at the 5% level.

¤(1) Risk-Adjusted return (%) (2) Fund return volatility (%) (3) Systematic Risk (%) (4)Country legality Index (5)Rule of law (6)Efficiency of the judiciary (7)Corruption Perception (8)Political Risk Index (9) Investment Profile (10) Religious Tensions (11) Internal Conflict (12)External Conflict (13)Bureaucracy Quality (14)Socioeconomic Conditions (15)Government Stability (16)Power Distance (17)Masculinity (18)Uncertainty Avoidance (19)Log(GNP per capita) (20)Domicile Type.

conv	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**	**(13)**	**(14)**	**(15)**	**(16)**	**(17)**	**(18)**	**(19)**	**(20)**
(1)	1,00																			
(2)	-0.41**	1.00																		
(3)	-0,40**	0,76**	1,00																	
(4)	-0,23**	0,26**	0,27**	1,00																
(5)	-0,08*	0,18**	0,12**	0,89**	1,00															
(6)	-0,35**	0,22**	0,35**	0,82**	0,51* *	1,00														
(7)	-0,17**	0,28**	0,25**	0,88**	0,85**	0,60**	1,00													
(8)	-0,15**	0,27**	0,36**	0,87**	0,74**	0,76**	0,86**	1,00												
(9)	-0,10*	0,13**	0,09*	0,76**	0,74**	0,54**	0,65**	0,79**	1,00											
(10)	-0,24**	0,32**	0,41**	0,89**	0,69**	0,81**	0,83**	0,85**	0,65**	1,00										
(11)	-0,14**	0,30**	0,44**	0,74**	0,53**	0,71**	0,77**	0,92**	0,56**	0,82**	1,00									
(12)	-0,10*	0,07*	0,19**	0,13**	-0,06*	0,37**	0,20**	0,51**	0,22**	0,21**	0,59**	1,00								
(13)	-0,26**	0,30**	0,41**	0,83**	0,62**	0,86**	0,81**	0,85**	0,49**	0,79**	0,80**	0,48**	1,00							
(14)	-0,12**	0,13**	0,31**	0,62**	0,43**	0,78**	0,43**	0,78**	0,56**	0,55**	0,75**	0,61**	0,76**	1,00						
(15)	0,08*	0,18**	0,05*	0,51**	0,68**	0,02*	0,67**	0,52**	0,59**	0,39**	0,41**	-0,19**	0,24**	0,05*	1,00					
(16)	-0,01*	0,03*	0,20**	0,03*	-0,16**	0,36**	-0,24**	0,15**	0,01*	0,06*	0,26**	0,38**	0,11*	0,60**	-0,27**	1,00				
(17)	0,02*	-0,02*	0,11*	0,11*	-0,16**	0,44**	-0,12	0,18**	0,11*	0,26**	0,26**	0,28**	0,16**	0,44**	-0,28**	0,64**	1,00			
(18)	0,09*	-0,12	-0,37**	0,07*	0,31**	-0,33**	0,23**	-0,08*	0,13	-0,07*	-0,19**	-0,45**	-0,17**	-0,39**	0,39**	-0,43**	-0,37**	1,00		
(19)	-0,11	0,20**	0,18**	0,85**	0,85**	0,58**	0,87**	0,91**	0,89**	0,79**	0,75**	0,31**	0,64**	0,57**	0,67**	-0,04*	0,00*	0,16**	1,00	
(20)	-0,20**	0,22**	0,15**	0,49**	0,56**	0,26**	0,68**	0,48**	0,36**	0,44**	0,38**	0,03*	0,48**	0,08*	0,50**	-0,41**	-0,43**	0,41**	0,54**	1,00

Islamic	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
(1)	1,00																			
(2)	-0,05*	1,00																		
(3)	-0,43**	0,72**	1,00																	
(4)	-0,24**	0,01*	0,13**	1,00																
(5)	-0,10	-0,13**	-0,13**	0,85**	1,00															
(6)	-0,38**	0,18**	0,39**	0,76**	0,42**	1,00														
(7)	-0,18**	0,05*	0,17**	0,82**	0,76**	0,59**	1,00													
(8)	-0,26**	0,05*	0,24**	0,91**	0,70**	0,78**	0,90**	1,00												
(9)	-0,06*	-0,20**	-0,21**	0,72**	0,75**	0,33**	0,50**	0,58**	1,00											
(10)	-0,30**	0,10*	0,27**	0,80**	0,51**	0,74**	0,78**	0,81**	0,51**	1,00										
(11)	-0,22**	0,11	0,37**	0,54**	0,23**	0,65**	0,58**	0,79**	0,24**	0,48**	1,00									
(12)	-0,27**	0,24**	0,34**	-0,07*	-0,24**	0,28**	0,12**	0,20**	-0,42**	-0,02*	0,47**	1,00								
(13)	-0,16**	0,13**	0,27**	0,55**	0,32**	0,57**	0,60**	0,55**	0,04*	0,76**	0,23**	-0,04*	1,00							
(14)	-0,20**	0,03*	0,17**	0,55**	0,33**	0,72**	0,32**	0,63**	0,22**	0,27**	0,67**	0,36**	0,21**	1,00						
(15)	0,32**	-0,28**	-0,36**	0,26**	0,44**	-0,24**	0,27**	0,23**	0,61**	0,01*	0,12**	-0,60**	-0,18**	-0,06	1,00					
(16)	0,10	-0,12**	-0,17**	-0,20**	-0,23**	-0,04*	-0,59**	-0,29**	-0,02*	-0,43**	-0,11	-0,11**	-0,38**	0,40**	-0,05*	1,00				
(17)	-0,25**	0,04*	0,16**	0,32**	0,09*	0,59**	0,06*	0,29**	0,24**	0,36**	0,24**	0,15**	0,13**	0,41**	-0,31**	0,18**	1,00			
(18)	0,29**	-0,22**	-0,42**	0,08*	0,35**	-0,44**	0,04*	-0,11	0,48**	-0,07*	-0,35**	-0,58**	-0,23**	-0,35**	0,57**	0,03*	-0,34**	1,00		
(19)	-0,15**	-0,08*	-0,07*	0,81**	0,84**	0,45**	0,86**	0,80**	0,73**	0,71**	0,37**	-0,03*	0,42**	0,32**	0,35**	-0,38**	0,09*	0,31**	1,00	
(20)	-0,11	0,08*	0,16**	0,58**	0,65**	0,40**	0,83**	0,69**	0,30**	0,45**	0,50**	0,26**	0,30**	0,19**	0,20**	-0,61**	0,01*	-0,03*	0,60**	1,00

Table 6.5 Impact of Law and Culture on Risk-Adjusted return

This Table reports the robust estimates of the following equation:

$$R_i = \lambda_{perf} + \delta_{dummy} + \theta_{perf} C_i + \delta_{dummy} \theta_{perf} C_i + \omega_{perf} Y_i + \delta_{dummy} \omega_{perf} Y_i + \Psi_{perf} U_i + \delta_{dummy} \Psi_{perf} U_i + \gamma_{perf} X_i + \delta_{dummy} \gamma_{perf} X_i + \varepsilon_i$$

Where R_i is the risk-adjusted return of the fund for a calendar year (calculated as the intercept from the regressions of monthly excess fund return of the CAPM Model).The sample includes 607 funds (322 are Islamic funds and 285 are conventional funds) from 23 countries in Asia, Europe, Middle-East region, South Africa and United States. The p-values are reported for each coefficient. The symbols ***, **, * denote significance levels of 1%, 5% and 10%, respectively, for the two-tailed hypothesis test that the coefficient equals 0.

	Model1		Model2		Model3		Model4	
VARIABLES	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
Intercept	0.464***	(0.121)	-0.0840	(0.0985)	2.316*	(1.231)	1.307***	(0.219)
Dummy(Islamic versus conventional)	-0.143	(0.177)	0.181	(0.164)	-1.961	(1.456)	-1.980***	(0.638)
Legal conditions								
Ln(Legality Index)	-0.344***	(0.104)						
δ_{dummy} Ln(Legality Index)	-0.127	(0.147)						
Efficiency of judiciary system			-0.0339***	(0.00880)				
δ_{dummy} Efficiency of judiciary system			0.0206*	(0.0110)				
Rule of law							-0.0979***	(0.0122)
δ_{dummy} Rule of law							-0.173***	(0.0582)
Corruption					-0.0160*	(0.00931)		
δ_{dummy} Corruption					0.0160	(0.0112)		
Common Law					-0.0491*	(0.0297)		
δ_{dummy} common Law					0.0433	(0.0373)		
Islamic Law					0.0768*	(0.0413)		
δ_{dummy} Islamic Law					0.317***	(0.114)		
Hofsted cultural dimensions								
Power Distance Index			0.000676	(0.000533)			-0.00196**	(0.000864)
δ_{dummy} Power Distance Index			1.51e-05	(0.000760)			0.00177*	(0.000939)
Uncertainty Avoidance Index			-0.00114	(0.000836)			0.00147	(0.000895)
δ_{dummy} Uncertainty Avoidance Index			0.00250**	(0.00101)			-0.00105	(0.00107)
Masculinity Index			0.00153	(0.00140)			0.00163	(0.00106)
δ_{dummy} Masculinity Index			-0.00121	(0.00179)			-0.00279*	(0.00161)
Market conditions								
Ln(GNP per capita)	0.0507	(0.0325)	0.0258*	(0.0150)	-0.205*	(0.105)	-0.213***	(0.0276)
δ_{dummy} Ln(GNP per capita)0	0.0600	(0.0458)	-0.0391*	(0.0211)	0.0875	(0.166)	0.331***	(0.100)
Domicile type	-0.0967**	(0.0440)	-0.0370	(0.0496)	-0.0839*	(0.0432)	-0.130***	(0.0379)

δ_{dummy} Domicile type	0.133**	(0.0641)	0.0906	(0.0653)	0.136	(0.0987)	0.268**	(0.113)
Muslim %					-0.0107	(0.0110)	-0.000333	(0.000578)
δ_{dummy} Muslim %					0.0111	(0.0110)	0.00300**	(0.00152)
Christian %	-0.000626	(0.000399)			-0.0119	(0.0109)		
δ_{dummy} Christian %	-0.00131**	(0.000635)			0.0117	(0.0110)		
Hindu	-0.00103				-0.0164	(0.0110)	-0.00778***	(0.00108)
δ_{dummy} Hindu	0.00138				0.0163	(0.0114)	0.0111***	(0.00357)
Other religions					-0.0154	(0.0111)		
δ_{dummy} Other religions					0.0275**	(0.0122)		
Fund Manager Characteristics								
PhD-trained	0.0306**	(0.0156)					0.0815***	(0.0296)
δ_{dummy} PhD-trained	0.0413	(0.0456)					0.0475	(0.0620)
MBA/CFA-trained					-0.0596***	(0.0190)	0.00208	(0.0152)
δ_{dummy} MBA/CFA-trained					0.0568**	(0.0279)	0.0190	(0.0194)
Bachelor-trained					-0.0565**	(0.0235)		
δ_{dummy} Bachelor-trained					0.0404	(0.0304)		
Islamic-trained	0.00146	(0.0268)	-0.00430	(0.0315)	0.0124	(0.0375)	0.0318	(0.0352)
δ_{dummy} Islamic-trained	0.0120	(0.0306)	0.00811	(0.0361)	-0.00615	(0.0421)	-0.0489	(0.0381)
Legally-trained	0.0368***	(0.0113)	0.0397***	(0.0116)	0.0298	(0.0181)	0.0108	(0.0360)
δ_{dummy} Legally-trained	-0.0440**	(0.0205)	-0.0995***	(0.0252)	-0.0376	(0.0256)	-0.0298	(0.0397)
Ln(relevant work experience)	0.000956	(0.0140)			0.00907	(0.0151)	0.0423*	(0.0247)
δ_{dummy} Ln(relevant work experience)	-0.0115	(0.0191)			-0.0187	(0.0203)	-0.0540*	(0.0276)
Team size					-0.0109	(0.00974)	-0.0121*	(0.00661)
δ_{dummy} Team size					0.00139	(0.0134)	0.0250**	(0.0105)
Male manager					-0.0226*	(0.0125)		
Female and male manager					0.0103	(0.0429)		
δ_{dummy} Male manager					0.00952	(0.0192)		
δ_{dummy} Female and male manager					0.0139	(0.0510)		
Performance fee %							0.00258*	(0.00144)
δ_{dummy} Performance fee %							-0.00376**	(0.00181)
Management fee %			0.00113	(0.0142)				
δ_{dummy} Management fee %			-0.00187	(0.0199)				
Ln(Islamic funds under management)					-0.0217***	(0.00823)		

δ_{dummy} Ln(Islamic funds under management)					-0.00283	(0.0117)		
Fund Characteristics								
Ln(FundTNA)	0.0109**	(0.00473)	0.0143**	(0.00600)	0.00969	(0.00744)	0.0106	(0.00852)
δ_{dummy} Ln(FundTNA)	-0.0134**	(0.00549)	-0.0206***	(0.00733)	-0.0177**	(0.00878)	-0.0168*	(0.00928)
Ln(Family TNA)			-0.00812	(0.00577)	-0.000583	(0.00514)	-0.0134**	(0.00540)
δ_{dummy} Ln(Family TNA)			0.00936	(0.00701)	0.00768	(0.00696)	0.0181***	(0.00661)
Age	-0.000114	(0.00231)			-0.000423	(0.00253)	-0.000644	(0.00349)
δ_{dummy} Age	-0.000276	(0.00247)			0.000105	(0.00275)	0.000270	(0.00359)
Ln(Minimum required					0.00360	(0.00383)		
δ_{dummy} Ln(Minimum required investment)					-0.00738	(0.00530)		
Investor share type	0.0224	(0.0224)	0.0361	(0.0296)	-0.0128	(0.0244)	-0.00953	(0.0250)
δ_{dummy} Investor share type	0.0138	(0.0308)	0.0122	(0.0387)	0.0529	(0.0324)	0.0419	(0.0323)
Payment share type	-0.0123	(0.0145)	-0.0155	(0.0162)	-0.00472	(0.0166)	-0.0279	(0.0175)
δ_{dummy} Payment share type	0.00634	(0.0213)	-0.00572	(0.0234)	0.00983	(0.0229)	0.0267	(0.0213)
Lagged volatility	-0.0978	(0.0961)	0.0329	(0.124)	-0.109	(0.123)		
δ_{dummy} Lagged volatility	0.200	(0.147)	0.0751	(0.222)	0.246	(0.164)		
Lagged alpha			0.0597	(0.116)	0.282***	(0.0899)		
δ_{dummy} Lagged alpha			-0.171	(0.154)	-0.426***	(0.138)		
Observations	481		465		423		458	
R-squared	0.288		0.249		0.417		0.366	

Tableau 6.6 Impact of Political risk on Performance

This Table reports the robust estimates of the following equation:

$R_i = \lambda_{perf} + \delta_{dummy} + \omega_{perf} Y_i + \delta_{dummy} \omega_{perf} Y_i + \gamma_{perf} X_i + \delta_{dummy} \gamma_{perf} X_i + \varepsilon_i$

Where R_i is the risk-adjusted return of the fund for a calendar year (calculated as the intercept from the regressions of monthly excess fund return of the CAPM Model).The sample includes 607 funds (322 are Islamic funds and 285 are conventional funds) from 23 countries in Asia, Europe, Middle-East region, South Africa and United States. The p-values are reported for each coefficient. The symbols ***, **, * denote significance levels of 1%, 5% and 10%, respectively, for the two-tailed hypothesis test that the coefficient equals 0.

VARIABLES	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Intercept	0.0260	0.208*	0.0455	0.250*	0.118	0.0767	-0.219	-0.108*
	(0.0663)	(0.112)	(0.0691)	(0.131)	(0.117)	(0.0968)	(0.150)	(0.0640)
Dummy(Islamic versus	0.163	-0.257*	-0.00171	-0.178	0.271*	-0.0555	0.352	-0.0117

conventional)								
	(0.101)	(0.155)	(0.0983)	(0.170)	(0.155)	(0.109)	(0.265)	(0.0863)
Political conditions								
Political risk	-0.0132*							
	(0.00770)							
δ_{dummy} Political risk	-0.0214*							
	(0.0129)							
Investment Profile		-0.0255**						
		(0.0107)						
δ_{dummy} Investment		0.0250*						
		(0.0138)						
Profile								
Religion Tensions			-0.0214**					
			(0.0105)					
δ_{dummy} Religion			0.0217*					
			(0.0127)					
Tensions								
Internal Conflict				-0.0250**				
				(0.0115)				
δ_{dummy} Internal				0.0149				
				(0.0145)				
Conflict								
External Conflict					-0.0199*			
					(0.0109)			
δ_{dummy} External					-0.0173			
					(0.0140)			
Conflict								
Bureaucracy Quality						-0.0335*		
						(0.0182)		
δ_{dummy} Bureaucracy						0.0340*		
						(0.0190)		
Quality								
Socioeconomic							0.0231***	
Conditions							(0.00884)	
δ_{dummy}							-0.0290**	
							(0.0115)	
Socioeconomic								
Conditions								
Government Stability								0.0113*
								(0.00644)
δ_{dummy} Government								0.0153*
								(0.00813)
Stability								
Market Condistions								
Ln(GNP per capita)							-0.0304*	

							(0.0180)	
δ_{dummy} Ln(GNP per capita)0							0.0237	
							(0.0238)	
Domicile type		-0.0934*	-0.0855*	-0.110***		-0.0970**	-0.0890**	
		(0.0506)	(0.0513)	(0.0402)		(0.0425)	(0.0413)	
δ_{dummy} Domicile type		0.116*	0.128*	0.161**		0.114*	0.158*	
		(0.0700)	(0.0702)	(0.0644)		(0.0611)	(0.0873)	
Muslum%							0.00389***	
							(0.000807)	
δ_{dummy} Muslum%							-0.00330***	
							(0.00118)	
Christian %		-0.000133	0.000143	0.000376		0.000127	0.00394***	
		(0.000417)	(0.000529)	(0.000351)		(0.000411)	(0.000989)	
δ_{dummy} Christian %		-0.00114*	-0.00185**	-0.00167***		-0.00132**	-0.00507***	
		(0.000636)	(0.000780)	(0.000529)		(0.000641)	(0.00173)	
Hindu%		-0.00282***	-0.00248***	-0.00358***		-0.00249***	0.00143	
		(0.000476)	(0.000364)	(0.000639)		(0.000490)	(0.000925)	
δ_{dummy} Hindu%		0.000595	0.000164	0.000982		0.000180	-0.00353**	
		(0.000639)	(0.000504)	(0.000844)		(0.000635)	(0.00145)	
Fund Characteristics								
Ln(FundTNA)	0.00577	0.0207***	0.00814	0.0107*	0.00610	0.0136**	0.0123*	0.00549
	(0.00519)	(0.00673)	(0.00622)	(0.00560)	(0.00502)	(0.00595)	(0.00711)	(0.00502)
δ_{dummy} Ln(FundTNA)	-0.0103	-0.0257***	-0.0173**	-0.0158**	-0.0150**	-0.0179**	-0.0215***	-0.0158**
	(0.00652)	(0.00766)	(0.00719)	(0.00672)	(0.00643)	(0.00708)	(0.00806)	(0.00628)
Ln(Family TNA)	-0.00331	-0.00444	0.00545	-0.00410	-0.00501	-0.00634	0.00133	-0.00638
	(0.00540)	(0.00498)	(0.00567)	(0.00509)	(0.00502)	(0.00557)	(0.00555)	(0.00545)
δ_{dummy} Ln(Family TNA)	0.0107	0.0109*	0.00509	0.0100	0.00570	0.0121*	0.00796	0.00598
	(0.00660)	(0.00605)	(0.00670)	(0.00635)	(0.00631)	(0.00666)	(0.00685)	(0.00653)
Age	0.00384*	-0.00164	0.000670	-0.000256	0.00132	-0.000580	-0.00151	0.00156
	(0.00233)	(0.00269)	(0.00275)	(0.00248)	(0.00225)	(0.00258)	(0.00253)	(0.00232)
δ_{dummy} Age	-0.00382	0.00142	-0.00133	-0.000316	-0.000996	-0.000174	0.000820	-0.000821
	(0.00253)	(0.00287)	(0.00294)	(0.00263)	(0.00254)	(0.00272)	(0.00273)	(0.00260)
Ln(Minimum required		0.00417	0.00211		0.0101***		0.00309	0.00851***
		(0.00297)	(0.00288)		(0.00261)		(0.00262)	(0.00253)
δ_{dummy} Ln(Minimum		0.000665	-0.000645		-0.00289		-0.00348	-0.00872**

required investment)								
		(0.00444)	(0.00453)		(0.00408)		(0.00470)	(0.00399)
Investor share type	0.0247	-0.00645	-0.0121	0.0172	-0.00468	0.0235	0.00640	-0.00465
	(0.0291)	(0.0269)	(0.0149)	(0.0237)	(0.0296)	(0.0243)	(0.0244)	(0.0297)
δ_{dummy} Investor share type	0.0414	0.0480	0.0237	0.0254	0.0494	0.0200	0.0323	0.0472
	(0.0397)	(0.0358)	(0.0202)	(0.0319)	(0.0390)	(0.0355)	(0.0327)	(0.0379)
Payment share type	0.0157	-0.00106	0.00496	-0.00243	0.00415	-0.00604	-0.0197	0.00108
	(0.0136)	(0.0139)	(0.0266)	(0.0146)	(0.0135)	(0.0152)	(0.0138)	(0.0138)
δ_{dummy} Payment share type	-0.00585	0.00879	0.0392	0.0105	-0.00530	0.0207	0.0216	-0.00329
	(0.0222)	(0.0199)	(0.0351)	(0.0221)	(0.0218)	(0.0215)	(0.0207)	(0.0222)
Lagged volatility	-0.0816				0.00292			-0.0236
	(0.0934)				(0.0809)			(0.0783)
δ_{dummy} Lagged volatility	0.167				0.101			0.201
	(0.195)				(0.171)			(0.190)
Lagged alpha					0.0789			0.0232
					(0.0783)			(0.0781)
δ_{dummy} Lagged alpha					-0.135			-0.131
					(0.126)			(0.120)
Fund Manager Characteristics								
PhD-trained	0.0554**	0.0382	0.0346	0.0569**			0.00555	
	(0.0235)	(0.0269)	(0.0254)	(0.0229)			(0.0233)	
δ_{dummy} PhD-trained	-0.0381	0.101*	0.0878	0.0731			0.126**	
	(0.0643)	(0.0598)	(0.0553)	(0.0553)			(0.0591)	
MBA/CFA-trained	0.0162	0.0153	0.00407	0.0160	-0.0207	-0.0382**	-0.00535	-0.0156
	(0.0147)	(0.0169)	(0.0171)	(0.0167)	(0.0261)	(0.0182)	(0.0129)	(0.0250)
δ_{dummy} MBA/CFA-trained	0.00244	0.00713	0.00969	0.00350	0.0300	0.0317	0.0154	0.0244
	(0.0198)	(0.0207)	(0.0209)	(0.0205)	(0.0335)	(0.0258)	(0.0175)	(0.0327)
Bachelor-trained					-0.0301	-0.0528**		-0.0279
					(0.0299)	(0.0240)		(0.0294)
δ_{dummy} Bachelor-trained					0.0132	0.0172		0.00878
					(0.0354)	(0.0297)		(0.0353)
Islamic-trained	0.0115	0.0201	0.0243	-0.0143	0.0368	-0.00956	0.0457	0.0292
	(0.0210)	(0.0299)	(0.0305)	(0.0316)	(0.0236)	(0.0370)	(0.0344)	(0.0244)

δ_{dummy} Islamic-trained	-0.0173	-0.0250	-0.00717	0.0151	-0.0586**	-0.00147	-0.0327	-0.0488*
	(0.0265)	(0.0333)	(0.0344)	(0.0342)	(0.0283)	(0.0406)	(0.0378)	(0.0290)
Legally-trained	0.0425***	0.0282***	0.0266**	-0.00817	0.0474***	-0.0167	0.00508	0.0342***
	(0.00846)	(0.0107)	(0.0120)	(0.0332)	(0.0131)	(0.0508)	(0.0122)	(0.0118)
δ_{dummy} Legally-trained	-0.0922***	-0.0225	-0.0133	0.0180	-0.0875***	0.0122	0.000204	-0.0817***
	(0.0239)	(0.0236)	(0.0266)	(0.0384)	(0.0255)	(0.0563)	(0.0217)	(0.0276)
Ln(relevant work experience)		-0.00365	0.00551		0.00788	0.0216	-0.00211	-0.00217
		(0.0144)	(0.0154)		(0.0143)	(0.0263)	(0.0147)	(0.0129)
δ_{dummy} Ln(relevant work experience)		-0.00131	-0.0146		-0.0342*	-0.0296	-0.00716	-0.0269
		(0.0189)	(0.0198)		(0.0197)	(0.0291)	(0.0191)	(0.0191)
Team size		-0.00899	-0.0101	-0.00978	-0.00782	-0.00873	-0.00489	-0.00878
		(0.00795)	(0.00803)	(0.00738)	(0.00747)	(0.00742)	(0.00438)	(0.00741)
δ_{dummy} Team size		0.0225*	0.0213*	0.0269***	0.0182	0.0262***	0.0139	0.0256**
		(0.0121)	(0.0116)	(0.0103)	(0.0115)	(0.00995)	(0.00956)	(0.0108)
Ln(Islamic funds under management)			-0.0198**				-0.0311***	
			(0.00893)				(0.00838)	
δ_{dummy} Ln(Islamic funds under management)			-0.00910				0.00716	
			(0.0119)				(0.0114)	
Management fee %	0.0172					0.0162		
	(0.0134)					(0.0156)		
δ_{dummy} Management fee %	-0.0164					-0.0132		
	(0.0198)					(0.0192)		
Observations	523	491	491	516	515	513	491	515
R-squared	0.132	0.261	0.296	0.237	0.210	0.230	0.350	0.224

Table 6.7 Impact of Law and Culture on Fund return volatility

This Table reports the robust estimates of the following equation: $\partial_i = \lambda_{volatility} + \delta_{dummy} + \theta_{volatility} C_i + \delta_{dummy} \theta_{volatility} C_i + \omega_{volatility} Y_i + \delta_{dummy} \omega_{volatility} Y_i + \Psi_{volatility} U_i + \delta_{dummy} \Psi_{volatility} U_i + \gamma_{volatility} X_i + \delta_{dummy} \gamma_{volatility} X_i + \varepsilon_i$, where ∂ is the volatility of monthly return of the fund over the 12 months in a calendar year. The international sample includes 607 Investment funds (322 are Islamic funds and 285 are

conventional funds) from 23 countries in Asia, Europe, Middle-East region, South Africa and United States. The p-values are reported for each coefficient. The symbols ***, **, * denote significance levels of 1%, 5% and 10%, respectively, for the two-tailed hypothesis test that the coefficient equals 0.

	Model1		Model2		Model3		Model4	
VARIABLES	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
Intercept	-0.293***	(0.0578)	-0.0509	(0.0512)	0.338***	(0.0588)	-0.279	(0.210)
Dummy(Islamic versus conventional)	0.108	(0.104)	0.00791	(0.0920)	-1.081***	(0.343)	0.211	(0.380)
Legal conditions								
Ln(Legality Index)	0.186***	(0.0451)						
δ_{dummy} Ln(Legality Index)	-0.0659	(0.0971)						
Efficiency of judiciary system			0.0193***	(0.00459)				
δ_{dummy} Efficiency of judiciary system			-0.0140**	(0.00569)				
Rule of law							0.0230*	(0.0137)
δ_{dummy} Rule of law							-0.00607	(0.0316)
Corruption					0.0345***	(0.00989)		
δ_{dummy} Corruption					-0.169***	(0.0502)		
Common Law					0.0567***	(0.0196)		
δ_{dummy} common Law					-0.176***	(0.0512)		
Islamic Law					0.0383*	(0.0222)		
δ_{dummy} Islamic Law					-0.127***	(0.0384)		
Hofsted cultural dimensions								
Power Distance Index			0.000518**	(0.000238)			0.000503	(0.000434)
δ_{dummy} Power Distance Index			-0.000227	(0.000330)			-0.000751	(0.000563)
Uncertainty Avoidance Index			4.71e-05	(0.000406)			-0.000602*	(0.000330)
δ_{dummy} Uncertainty Avoidance Index			-0.000297	(0.000517)			0.000696	(0.000523)
Masculinity Index			-0.00165**	(0.000784)			-0.00100*	(0.000535)
δ_{dummy} Masculinity Index			0.00143	(0.000992)			0.000170	(0.00105)
Market conditions								
Ln(GNP per capita)	-0.0152	(0.0132)	-0.00419	(0.00757)	-0.0391***	(0.00937)	0.0735**	(0.0303)
δ_{dummy} Ln(GNP per capita)0	0.00657	(0.0279)	0.00957	(0.0120)	0.213***	(0.0652)	-0.0199	(0.0609)
Domicile type	0.0553**	(0.0261)	-0.000201	(0.0242)	0.0570**	(0.0241)	-0.00263	(0.0269)
δ_{dummy} Domicile type	-0.0524*	(0.0314)	0.00157	(0.0290)	-0.00704	(0.0408)	0.0505	(0.0570)
Muslim %							-0.000289	(0.000361)
δ_{dummy} Muslim %							0.000463	(0.000825)
Christian %	8.12e-06	(0.000204)			0.000388	(0.000468)		

δ_{dummy} Christian %	-0.000290	(0.000289)			0.00103*	(0.000594)		
Hindu	0.000392	(0.000326)			0.00120***	(0.000280)	0.00307***	(0.00100)
δ_{dummy} Hindu	-0.000608	(0.000742)			0.00215**	(0.000986)	-0.000754	(0.00202)
Other religions								
δ_{dummy} Other religions								
Fund Manager Characteristics								
PhD-trained	-0.0185	(0.0114)					-0.0231	(0.0240)
δ_{dummy} PhD-trained	0.00941	(0.0171)					0.0154	(0.0402)
MBA/CFA-trained					0.00996	(0.0103)	0.000647	(0.0117)
δ_{dummy} MBA/CFA-trained					-0.00656	(0.0143)	-0.00175	(0.0155)
Bachelor-trained								
δ_{dummy} Bachelor-trained								
Islamic-trained	-0.00302	(0.0103)	0.0206	(0.0144)	-0.0286	(0.0293)	-0.0192	(0.0258)
δ_{dummy} Islamic-trained	-0.00765	(0.0132)	-0.0321*	(0.0166)	-0.00691	(0.0334)	-0.0117	(0.0301)
Legally-trained	-0.0133	(0.0112)	-0.00611	(0.00680)	-0.0234	(0.0382)	-0.0318	(0.0254)
δ_{dummy} Legally-trained	0.00192	(0.0207)	-0.00201	(0.0184)	0.0137	(0.0453)	0.0281	(0.0349)
Ln(relevant work experience)	0.00685	(0.00851)			-0.0185	(0.0130)	-0.0254**	(0.0126)
δ_{dummy} Ln(relevant work experience)	0.000231	(0.0107)			0.0295*	(0.0157)	0.0337**	(0.0155)
Team size					-0.00378	(0.00408)	0.00118	(0.00559)
δ_{dummy} Team size					0.00534	(0.00663)	-0.00399	(0.00789)
Male manager								
Female and male manager								
δ_{dummy} Male manager								
δ_{dummy} Female and male manager								
Performance fee %							0.000140	(0.000929)
δ_{dummy} Performance fee %							-0.000106	(0.00123)
Management fee %			0.0294***	(0.0101)				
δ_{dummy} Management fee %			-0.00733	(0.0132)				
Ln(Islamic funds under management)								
δ_{dummy} Ln(Islamic funds under management)								
Fund Characteristics								
Ln(FundTNA)	-0.00880***	(0.00288)	-0.00755*	(0.00392)	-0.0166***	(0.00523)	-0.0113**	(0.00568)
δ_{dummy} Ln(FundTNA)	0.00252	(0.00332)	0.00369	(0.00433)	0.00641	(0.00596)	0.00146	(0.00655)

Ln(Family TNA)			0.00970**	(0.00375)	0.0113***	(0.00396)	0.0107**	(0.00414)
δ_{dummy} Ln(Family TNA)			-0.00947**	(0.00416)	-0.0100**	(0.00480)	-0.00954*	(0.00514)
Age	0.00255**	(0.00108)			0.00355***	(0.00137)	0.00449**	(0.00190)
δ_{dummy} Age	-0.00243**	(0.00119)			-0.00322**	(0.00154)	-0.00428**	(0.00205)
Ln(Minimum required								
δ_{dummy} Ln(Minimum required investment)								
Investor share type	-0.00755	(0.0128)	-0.0153	(0.0165)			-0.0447**	(0.0212)
δ_{dummy} Investor share type	0.00242	(0.0174)	0.0280	(0.0218)			0.0221	(0.0265)
Payment share type	0.0191*	(0.0101)	0.0118	(0.0115)			0.0468***	(0.0137)
δ_{dummy} Payment share type	-0.0304**	(0.0131)	-0.0129	(0.0136)			-0.0481***	(0.0170)
Lagged volatility	0.641***	(0.150)	0.595***	(0.0875)				
δ_{dummy} Lagged volatility	0.214	(0.162)	0.0367	(0.137)				
Lagged alpha			0.0676	(0.0453)				
δ_{dummy} Lagged alpha			0.0607	(0.0713)				
Observations	488		471		525		465	
R-squared	0.611		0.621		0.269		0.320	

Tableau 6.8 Impact of Law and Culture on Systematic risk

This Table reports robust estimates pf the following equation: $\beta_i = \lambda_\beta + \delta_{dummy} + \theta_\beta C_i + \delta_{dummy}\theta_\beta C_i + \omega_\beta Y_i + \delta_{dummy}\omega_\beta Y_i + \Psi_\beta U_i + \delta_{dummy}\Psi_\beta U_i + \gamma_\beta X_i + \delta_{dummy}\gamma_\beta X_i + \varepsilon_i$, where β represents the systematic risk of the fund for a calendar year (calculated from the regression of monthly excess return on the CAPM Model). The international sample includes 607 Investment funds, where 322 are Islamic funds and 285 are conventional funds from 23 countries in Asia, Europe, South Africa, Middle-East region and United States. The p-values are reported for each coefficient. The symbols ***, **, * denote significance levels of 1%, 5% and 10%, respectively, for the two-tailed hypothesis test that the coefficient equals 0.

VARIABLES	Model1		Model2		Model3		Model4	
	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
Intercept	-1.473***	(0.387)	0.0767	(0.267)	1.958***	(0.514)	0.638**	(0.270)
Dummy(Islamic versus conventional)	0.484	(0.485)	0.0869	(0.412)	-2.369	(1.508)	1.252**	(0.495)
Legal and conditions								
Ln(Legality Index)	1.523***	(0.358)						
δ_{dummy} Ln(Legality Index)	1.089**	(0.454)						
Efficiency of judiciary system			0.0560**	(0.0241)				
δ_{dummy} Efficiency of judiciary system			0.0205	(0.0299)				

Rule of law							0.0528*	(0.0307)
δ_{dummy} Rule of law							-0.0480	(0.0367)
Corruption					0.142*	(0.0812)		
δ_{dummy} Corruption					-0.539***	(0.194)		
Common Law					0.189*	(0.113)		
δ_{dummy} common Law					-0.751***	(0.212)		
Islamic Law					-0.267**	(0.131)		
δ_{dummy} Islamic Law					-1.143***	(0.307)		
Hofsted cultural dimensions								
Power Distance Index			0.000450	(0.00162)			-0.000719	(0.00167)
δ_{dummy} Power Distance Index			-0.000304	(0.00199)			-0.00320*	(0.00193)
Uncertainty Avoidance Index			-0.00817***	(0.00197)			-0.0132***	(0.00185)
δ_{dummy} Uncertainty Avoidance Index			0.00323	(0.00258)			0.00595***	(0.00229)
Masculinity Index			0.00392	(0.00403)			0.00360	(0.00353)
δ_{dummy} Masculinity Index			-0.00908*	(0.00489)			-0.00933*	(0.00540)
Market conditions								
Ln(GNP per capita)	-0.254**	(0.120)	-0.0478	(0.0441)	-0.205**	(0.0817)		
δ_{dummy} Ln(GNP per capita)0	-0.389***	(0.149)	0.0375	(0.0613)	0.648**	(0.255)		
Domicile type	0.372***	(0.117)	0.378**	(0.149)	0.0956	(0.117)		
δ_{dummy} Domicile type	-0.405***	(0.152)	-0.432**	(0.173)	-0.295**	(0.147)		
Muslim %								
δ_{dummy} Muslim %								
Christian %	0.00293**	(0.00137)			0.000799	(0.00245)		
δ_{dummy} Christian %	0.00295*	(0.00177)			0.00242	(0.00327)		
Hindu	-0.00318	(0.00296)			0.000743	(0.00268)		
δ_{dummy} Hindu	-0.0124***	(0.00368)			-0.00305	(0.00601)		
Other religions					0.000682	(0.00530)		
δ_{dummy} Other religions					-0.0364***	(0.0123)		
Fund Manager Characteristics								
PhD-trained	-0.0601	(0.0578)					-0.119	(0.100)
δ_{dummy} PhD-trained	-0.0174	(0.157)					-0.0114	(0.201)
MBA/CFA-trained					0.0484	(0.0590)	-0.0393	(0.0672)
δ_{dummy} MBA/CFA-trained					0.0179	(0.0760)	0.0189	(0.0836)
Bachelor-trained								

δ_{dummy} Bachelor-trained								
Islamic-trained	0.0265	(0.0767)	0.270**	(0.135)	-0.0538	(0.149)	0.295*	(0.171)
δ_{dummy} Islamic-trained	-0.128	(0.0968)	-0.260*	(0.149)	-0.163	(0.172)	-0.381**	(0.190)
Legally-trained	-0.0452	(0.0511)	-0.0392	(0.0423)	-0.166	(0.102)	-0.239***	(0.0555)
δ_{dummy} Legally-trained	-0.0291	(0.0850)	0.241**	(0.0941)	0.218	(0.151)	0.503***	(0.146)
Ln(relevant work experience)	0.0281	(0.0507)			-0.152**	(0.0719)	0.00539	(0.0685)
δ_{dummy} Ln(relevant work experience)	-0.00907	(0.0606)			0.221***	(0.0805)	0.0331	(0.0798)
Team size					-0.0254	(0.0230)	-0.00552	(0.0269)
δ_{dummy} Team size					0.0294	(0.0346)	-0.0298	(0.0389)
Male manager								
Female and male manager								
δ_{dummy} Male manager								
δ_{dummy} Female and male manager								
Performance fee %								
δ_{dummy} Performance fee %								
Management fee %			0.0877	(0.0558)				
δ_{dummy} Management fee %			0.00601	(0.0738)				
Ln(Islamic funds under management)					0.00673	(0.0390)		
δ_{dummy} Ln(Islamic funds under management)					0.0770	(0.0484)		
Fund Characteristics								
Ln(FundTNA)	-0.0704***	(0.0184)	-0.0440*	(0.0241)	-0.0696**	(0.0275)	-0.0576*	(0.0306)
δ_{dummy} Ln(FundTNA)	0.0600***	(0.0198)	0.0376	(0.0265)	0.0424	(0.0301)	0.0245	(0.0339)
Ln(Family TNA)			0.0557***	(0.0202)	0.0498**	(0.0252)	0.0769***	(0.0203)
δ_{dummy} Ln(Family TNA)			-0.0471**	(0.0221)	-0.0521*	(0.0277)	-0.0587**	(0.0236)
Age	0.0199**	(0.00778)			0.0263***	(0.00698)	-0.00512	(0.00778)
δ_{dummy} Age	-0.0240***	(0.00893)			-0.0274***	(0.00904)	0.000879	(0.00976)
Ln(Minimum required							-0.00304	(0.0117)
δ_{dummy} Ln(Minimum required investment)							-0.0249	(0.0176)
Investor share type	-0.0849*	(0.0485)	-0.128*	(0.0692)			-0.123	(0.103)
δ_{dummy} Investor share type	0.0910	(0.0666)	0.193**	(0.0860)			0.0590	(0.122)
Payment share type	0.150**	(0.0601)	0.178***	(0.0682)	0.254***	(0.0613)		
δ_{dummy} Payment share type	-0.177**	(0.0722)	-0.151*	(0.0831)	-0.299***	(0.0768)		
Lagged volatility	2.481***	(0.607)	1.789***	(0.436)				

δ_{dummy} Lagged volatility	1.051	(0.667)	0.533	(0.923)				
Lagged alpha			1.015***	(0.381)				
δ_{dummy} Lagged alpha			-0.524	(0.457)				
Observations	481		465		518		482	
R-squared	0.593		0.575		0.408		0.367	

Tableau 6.9 Impact of Political risk on Fund Return Volatility

This Table reports the robust estimates of the following equation:

$\partial_i = \lambda_{perf} + \delta_{dummy} + \omega_{perf} Y_i + \delta_{dummy} \omega_{perf} Y_i + \gamma_{perf} X_i + \delta_{dummy} \gamma_{perf} X_i + \varepsilon_i$

Where ∂_i is the return volatility of the fund for a calendar year (calculated as the intercept from the regressions of monthly excess fund return of the CAPM Model).The sample includes 607 funds (322 are Islamic funds and 285 are conventional funds) from 23 countries in Asia, Europe, Middle-East region, South Africa and United States. The p-values are reported for each coefficient. The symbols ***, **, * denote significance levels of 1%, 5% and 10%, respectively, for the two-tailed hypothesis test that the coefficient equals 0.

VARIABLES	Model1	Model2	Model3	Model4	Model 5	Model 6	Model 7	Model 8
Intercept	-0.146***							
	(0.0318)							
Dummy(Islamic versus conventional)	0.103**	0.195***	0.0748	0.0963*	0.172*	0.135***	0.114**	0.0901*
	(0.0520)	(0.0731)	(0.0482)	(0.0569)	(0.0896)	(0.0516)	(0.0548)	(0.0484)
Political conditions								
Political risk	0.0287***							
	(0.00413)							
δ_{dummy} Political risk	-0.0137**							
	(0.00692)							
Investment Profile		0.0183***						
		(0.00358)						
δ_{dummy} Investment		-0.0156***						
		(0.00596)						
Profile								
Religion Tensions			0.0164***					
			(0.00321)					
δ_{dummy} Religion			-0.0124***					
			(0.00442)					
Tensions								
Internal Conflict				0.0149***				
				(0.00322)				
δ_{dummy} Internal Conflict				-0.00642				

				(0.00480)				
External Conflict					0.0140**			
					(0.00674)			
δ_{dummy} External Conflict					-0.0103			
					(0.00809)			
Bureaucracy Quality						0.0329***		
						(0.00623)		
δ_{dummy} Bureaucracy Quality						-0.0284***		
						(0.00685)		
Socioeconomic Conditions							0.00982***	
							(0.00267)	
δ_{dummy} Socioeconomic Conditions							-0.00483	
							(0.00339)	
Government Stability								0.00953***
								(0.00307)
δ_{dummy} Government Stability								-0.00509
								(0.00450)
Fund Characteristics								
Ln(FundTNA)	-0.0121***	-0.0162***	-0.0127***	-0.00985***	-0.0106***	-0.0104***	-0.00923***	-0.0148***
	(0.00321)	(0.00315)	(0.00306)	(0.00295)	(0.00327)	(0.00294)	(0.00299)	(0.00319)
δ_{dummy} Ln(FundTNA)	0.00709*	0.0121***	0.00824**	0.00565*	0.00661*	0.00594*	0.00540	0.0104***
	(0.00364)	(0.00356)	(0.00351)	(0.00341)	(0.00368)	(0.00340)	(0.00342)	(0.00363)
Ln(Family TNA)	0.00810**	0.00885***	0.00788**	0.00783**	0.0117***	0.00953***	0.00881***	0.00946**
	(0.00345)	(0.00338)	(0.00345)	(0.00343)	(0.00389)	(0.00337)	(0.00335)	(0.00369)
δ_{dummy} Ln(Family TNA)	-0.00841**	-0.00853**	-0.00739*	-0.00736*	-0.0105**	-0.00880**	-0.00832**	-0.00957**
	(0.00389)	(0.00397)	(0.00391)	(0.00389)	(0.00427)	(0.00383)	(0.00381)	(0.00427)
Age	0.00159	0.00247**	0.00235**	0.00197*	0.00212*	0.00205*	0.00150	0.00204
	(0.00103)	(0.00119)	(0.00110)	(0.00114)	(0.00128)	(0.00111)	(0.00121)	(0.00130)
δ_{dummy} Age	-0.00160	-0.00332**	-0.00309**	-0.00256*	-0.00289**	-0.00277**	-0.00217	-0.00299**
	(0.00121)	(0.00137)	(0.00132)	(0.00134)	(0.00146)	(0.00133)	(0.00139)	(0.00148)
Ln(Minimum required		-0.00412**	-0.00396**	-0.00555***	-0.00637***	-0.00494***	-0.00435**	-0.00624***
		(0.00185)	(0.00179)	(0.00178)	(0.00198)	(0.00189)	(0.00200)	(0.00190)
δ_{dummy} Ln(Minimum required investment)		-6.33e-05	0.000200	0.000352	0.00170	0.00104	-5.95e-05	0.00106
		(0.00239)	(0.00239)	(0.00219)	(0.00243)	(0.00239)	(0.00242)	(0.00241)
Payment share type	-0.00390	0.00642	0.0151*	0.0127	0.0110	0.0192**	0.0118	0.00166
	(0.00813)	(0.00841)	(0.00862)	(0.00848)	(0.00928)	(0.00894)	(0.00865)	(0.00947)
δ_{dummy} Payment share	-0.00411	-0.0138	-0.0199	-0.0138	-0.0172	-0.0225*	-0.0149	-0.00941

type								
	(0.0115)	(0.0120)	(0.0126)	(0.0126)	(0.0129)	(0.0128)	(0.0124)	(0.0127)
Investor share type	0.00807	0.0260	0.0160	0.0157	0.0168	0.0137	0.0203	0.0257
	(0.0136)	(0.0165)	(0.0147)	(0.0153)	(0.0159)	(0.0167)	(0.0171)	(0.0169)
δ_{dummy} Investor share type	-0.000278	-0.0188	-0.00872	-0.00790	-0.00852	-0.00644	-0.0109	-0.0204
	(0.0201)	(0.0219)	(0.0205)	(0.0207)	(0.0215)	(0.0220)	(0.0223)	(0.0217)
Lagged volatility	0.455***	0.570***	0.557***	0.550***	0.537***	0.555***	0.583***	0.550***
	(0.0879)	(0.0806)	(0.0799)	(0.0791)	(0.0823)	(0.0818)	(0.0843)	(0.0838)
δ_{dummy} Lagged volatility	0.153	0.0974	0.100	0.120	0.123	0.101	0.103	0.129
	(0.125)	(0.131)	(0.129)	(0.121)	(0.132)	(0.131)	(0.133)	(0.134)
Lagged alpha	-0.0467	0.00226	-0.00902	-0.0396	-0.0190	-0.00721	-0.0190	0.00165
	(0.0457)	(0.0511)	(0.0510)	(0.0514)	(0.0564)	(0.0507)	(0.0524)	(0.0519)
δ_{dummy} Lagged alpha	0.196***	0.167**	0.176**	0.179**	0.175**	0.175**	0.152*	0.180**
	(0.0706)	(0.0760)	(0.0753)	(0.0772)	(0.0803)	(0.0742)	(0.0786)	(0.0777)
Fund Manager Characteristics								
PhD-trained	-0.0438***							
	(0.0122)							
δ_{dummy} PhD-trained	0.0158							
	(0.0204)							
MBA/CFA-trained	-0.0126	0.0310*	0.0335*	0.0349*	0.0314	0.0335	0.0351*	0.0243
	(0.00864)	(0.0171)	(0.0185)	(0.0187)	(0.0210)	(0.0207)	(0.0201)	(0.0194)
δ_{dummy} MBA/CFA-trained	0.00653	-0.0239	-0.0254	-0.0290	-0.0259	-0.0248	-0.0293	-0.0166
	(0.0105)	(0.0193)	(0.0205)	(0.0206)	(0.0228)	(0.0225)	(0.0220)	(0.0213)
Bachelor-trained		0.0388**	0.0382*	0.0414**	0.0391*	0.0420*	0.0435**	0.0367*
		(0.0187)	(0.0196)	(0.0202)	(0.0223)	(0.0220)	(0.0215)	(0.0213)
δ_{dummy} Bachelor-trained		-0.0244	-0.0225	-0.0297	-0.0249	-0.0248	-0.0311	-0.0224
		(0.0205)	(0.0214)	(0.0219)	(0.0239)	(0.0236)	(0.0232)	(0.0229)
Islamic-trained	-0.00936	-0.0232	-0.0327*	-0.0210	-0.0149	-0.00165	0.00361	-0.0141
	(0.0114)	(0.0150)	(0.0174)	(0.0153)	(0.0180)	(0.0153)	(0.0152)	(0.0151)
δ_{dummy} Islamic-trained	-0.00101	0.00813	0.0168	0.00361	-0.000540	-0.0110	-0.0151	0.000109
	(0.0139)	(0.0175)	(0.0197)	(0.0177)	(0.0201)	(0.0178)	(0.0176)	(0.0175)
Legally-trained	-0.00912	-0.00915	-0.0153*	-0.0174**	-0.00769	-0.00842	-0.00918	-0.00404
	(0.00685)	(0.00756)	(0.00793)	(0.00848)	(0.00869)	(0.00779)	(0.00787)	(0.00778)
δ_{dummy} Legally-trained	-0.00636	-0.000697	0.00165	-0.000528	-0.00440	-0.00107	0.00273	-0.00392
	(0.0183)	(0.0184)	(0.0179)	(0.0175)	(0.0184)	(0.0184)	(0.0189)	(0.0182)
Ln(relevant work experience)		0.0119	0.00439	0.00523	0.0145	0.00986	0.0130	0.0208**
		(0.00896)	(0.00961)	(0.00961)	(0.00959)	(0.00896)	(0.00941)	(0.00881)

δ_{dummy} Ln(relevant work experience)		-0.00928	-0.00239	-0.00351	-0.0121	-0.00714	-0.0102	-0.0177
		(0.0122)	(0.0124)	(0.0124)	(0.0126)	(0.0121)	(0.0124)	(0.0120)
Team size		0.000661	0.000683	0.000837	0.00111	0.00211	0.00275	-0.000891
		(0.00318)	(0.00297)	(0.00314)	(0.00343)	(0.00327)	(0.00324)	(0.00361)
δ_{dummy} Team size		0.00247	0.00260	0.00373	0.00146	-0.000552	0.00154	0.00394
		(0.00587)	(0.00588)	(0.00595)	(0.00618)	(0.00628)	(0.00596)	(0.00623)
Performance fee %	0.000919							
	(0.000585)							
δ_{dummy} Performance fee %	-0.000974							
	(0.000815)							
Management fee %	0.0359***							
	(0.0103)							
δ_{dummy} Management fee %	-0.0136							
	(0.0132)							
Observations	525	520	520	520	520	520	520	520
R-squared	0.595	0.575	0.578	0.581	0.560	0.577	0.572	0.565

Tableau 6.10 Impact of Political risk on Systematic Risk

This Table reports the robust estimates of the following equation:

$\beta_i = \lambda_{perf} + \delta_{dummy} + \omega_{perf} Y_i + \delta_{dummy} \omega_{perf} Y_i + \gamma_{perf} X_i + \delta_{dummy} \gamma_{perf} X_i + \varepsilon_i$

Where β_i is the systematic risk of the fund for a calendar year (calculated as the intercept from the regressions of monthly excess fund return of the CAPM Model).The sample includes 607 funds (322 are Islamic funds and 285 are conventional funds) from 23 countries in Asia, Europe, Middle-East region, South Africa and United States. The p-values are reported for each coefficient. The symbols ***, **, * denote significance levels of 1%, 5% and 10%, respectively, for the two-tailed hypothesis test that the coefficient equals 0.

VARIABLES	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Intercept	-1.053***	-0.824***	-0.263	-0.846***	-1.259***	-0.778***	-0.778***	-0.352
	(0.223)	(0.287)	(0.209)	(0.222)	(0.401)	(0.225)	(0.236)	(0.279)
Dummy(Islamic versus conventional)	0.134	1.326***	0.114	-0.0135	0.585	0.704**	0.412	1.082***
	(0.307)	(0.480)	(0.277)	(0.334)	(0.534)	(0.284)	(0.301)	(0.380)
Political conditions								
Political risk	0.200***							
	(0.0317)							

δ_{dummy} Political risk	-0.0105							
	(0.0444)							
Investment Profile		0.0877***						
		(0.0245)						
δ_{dummy} Investment		-0.115***						
		(0.0404)						
Profile								
Religion Tensions			0.125***					
			(0.0207)					
δ_{dummy} Religion			-0.0479					
			(0.0294)					
Tensions								
Internal Conflict				0.115***				
				(0.0210)				
δ_{dummy} Internal				0.0113				
				(0.0311)				
Conflict								
External Conflict					0.120***			
					(0.0381)			
δ_{dummy} External					-0.0284			
					(0.0502)			
Conflict								
Bureaucray Quality						0.279***		
						(0.0425)		
δ_{dummy} Bureaucray						-0.205***		
						(0.0485)		
Quality								
Socioeconomic							0.0742***	
Conditions							(0.0169)	
δ_{dummy}							-0.0125	
							(0.0201)	
Socioeconomic								
Conditions								
Government Stability								0.0467*
								(0.0269)
δ_{dummy} Government								-0.108***
								(0.0335)
Stability								
Fund Characteristics								
Ln(FundTNA)	-0.0972***	-0.117***	-0.102***	-0.0800***	-0.0837***	-0.0823***	-0.0756***	-0.113***
	(0.0194)	(0.0235)	(0.0210)	(0.0209)	(0.0242)	(0.0198)	(0.0210)	(0.0258)
δ_{dummy} Ln(FundTNA)	0.0712***	0.108***	0.0830***	0.0675***	0.0748***	0.0652***	0.0676***	0.0993***
	(0.0225)	(0.0262)	(0.0242)	(0.0239)	(0.0268)	(0.0227)	(0.0239)	(0.0294)
Ln(Family TNA)	0.0566***	0.0752***	0.0610***	0.0606***	0.0906***	0.0722***	0.0683***	0.0641**
	(0.0216)	(0.0209)	(0.0195)	(0.0197)	(0.0225)	(0.0184)	(0.0187)	(0.0261)

δ_{dummy} Ln(Family TNA)	-0.0698***	-0.0702***	-0.0653***	-0.0641***	-0.0799***	-0.0719***	-0.0707***	-0.0476*
	(0.0239)	(0.0235)	(0.0219)	(0.0219)	(0.0245)	(0.0205)	(0.0211)	(0.0287)
Age	0.0124*	0.0153*	0.0158**	0.0129	0.0142	0.0135*	0.00935	0.0246***
	(0.00685)	(0.00921)	(0.00790)	(0.00802)	(0.00904)	(0.00717)	(0.00822)	(0.00870)
δ_{dummy} Age	-0.0143*	-0.0205**	-0.0187**	-0.0141	-0.0171*	-0.0166**	-0.0122	-0.0312***
	(0.00824)	(0.0102)	(0.00890)	(0.00890)	(0.0100)	(0.00836)	(0.00908)	(0.0102)
Ln(Minimum required		-0.0221**	-0.0163*	-0.0285***	-0.0354***	-0.0232**	-0.0195*	-0.0247**
		(0.0103)	(0.00913)	(0.00929)	(0.0105)	(0.00953)	(0.0104)	(0.0113)
δ_{dummy} Ln(Minimum required investment)		0.00725	0.0165	0.00491	0.0161	0.0189	0.00712	0.0225
		(0.0146)	(0.0134)	(0.0128)	(0.0146)	(0.0129)	(0.0140)	(0.0166)
Investor share type	0.0390	0.122	0.0610	0.0579	0.0625	0.0366	0.0936	0.103
	(0.0783)	(0.100)	(0.0816)	(0.0885)	(0.0998)	(0.0901)	(0.101)	(0.110)
δ_{dummy} Investor share type	-0.0437	-0.115	-0.0553	-0.0484	-0.0330	-0.0322	-0.0619	-0.101
	(0.0952)	(0.115)	(0.0967)	(0.100)	(0.113)	(0.104)	(0.114)	(0.132)
Payment share type	0.0664	0.0825	0.145**	0.126**	0.116*	0.186***	0.119**	0.0567
	(0.0634)	(0.0600)	(0.0589)	(0.0562)	(0.0612)	(0.0596)	(0.0594)	(0.0698)
δ_{dummy} Payment share type	-0.184**	-0.207***	-0.240***	-0.178**	-0.236***	-0.263***	-0.208***	-0.192**
	(0.0792)	(0.0799)	(0.0790)	(0.0776)	(0.0816)	(0.0810)	(0.0798)	(0.0884)
Lagged volatility	1.440***	1.646***	1.596***	1.538***	1.427***	1.576***	1.787***	
	(0.476)	(0.406)	(0.379)	(0.383)	(0.407)	(0.404)	(0.403)	
δ_{dummy} Lagged volatility	0.814	0.818	0.851	1.115	1.040	0.850	1.037	
	(0.827)	(0.924)	(0.834)	(0.756)	(0.879)	(0.883)	(0.919)	
Lagged alpha		0.685*	0.572	0.336	0.465	0.570	0.498	
		(0.381)	(0.358)	(0.358)	(0.378)	(0.364)	(0.378)	
δ_{dummy} Lagged alpha		0.267	0.353	0.186	0.165	0.370	0.0235	
		(0.478)	(0.461)	(0.460)	(0.497)	(0.454)	(0.486)	
Fund Manager Characteristics								
PhD-trained	-0.254***							
	(0.0785)							
δ_{dummy} PhD-trained	0.000918							
	(0.175)							
MBA/CFA-trained	-0.0188	0.129	0.162*	0.173**	0.151	0.168*	0.173*	0.0156

	(0.0654)	(0.101)	(0.0898)	(0.0818)	(0.109)	(0.0895)	(0.0970)	(0.109)
δ_{dummy} MBA/CFA-trained	-0.0128	-0.0649	-0.0541	-0.109	-0.100	-0.0574	-0.110	0.0475
	(0.0762)	(0.120)	(0.113)	(0.107)	(0.130)	(0.111)	(0.118)	(0.128)
Bachelor-trained		0.122	0.122	0.147	0.131	0.155	0.163	0.0592
		(0.125)	(0.112)	(0.106)	(0.130)	(0.112)	(0.119)	(0.122)
δ_{dummy} Bachelor-trained		0.0116	0.0382	-0.0564	-0.00176	0.0254	-0.0564	0.0159
		(0.139)	(0.128)	(0.123)	(0.145)	(0.127)	(0.134)	(0.137)
Islamic-trained	0.0758	0.0864	-0.0192	0.0696	0.114	0.226*	0.257**	0.143
	(0.0819)	(0.102)	(0.103)	(0.100)	(0.118)	(0.116)	(0.121)	(0.109)
δ_{dummy} Islamic-trained	-0.0416	-0.0462	0.0424	-0.0653	-0.0841	-0.147	-0.173	-0.162
	(0.0952)	(0.117)	(0.121)	(0.113)	(0.131)	(0.130)	(0.135)	(0.129)
Legally-trained	-0.0816	-0.0119	-0.0827	-0.0991*	-0.0308	-0.0360	-0.0348	0.0194
	(0.0542)	(0.0541)	(0.0545)	(0.0583)	(0.0582)	(0.0527)	(0.0564)	(0.0611)
δ_{dummy} Legally-trained	0.246***	0.229*	0.230**	0.216**	0.201*	0.265**	0.312***	0.318**
	(0.0899)	(0.118)	(0.104)	(0.0914)	(0.110)	(0.113)	(0.120)	(0.136)
Ln(relevant work experience)		0.130**	0.0454	0.0513	0.116*	0.0776	0.112*	0.171**
		(0.0579)	(0.0563)	(0.0576)	(0.0603)	(0.0527)	(0.0577)	(0.0666)
δ_{dummy} Ln(relevant work experience)		-0.0672	-0.00134	-0.00978	-0.0660	-0.0192	-0.0534	-0.0946
		(0.0766)	(0.0710)	(0.0710)	(0.0752)	(0.0705)	(0.0754)	(0.0794)
Team size		-0.0241	-0.0237	-0.0225	-0.0199	-0.0115	-0.00811	-0.0321
		(0.0275)	(0.0244)	(0.0254)	(0.0274)	(0.0251)	(0.0241)	(0.0248)
δ_{dummy} Team size		-0.00213	0.0232	0.0361	0.00721	-0.0198	0.0136	0.00939
		(0.0382)	(0.0353)	(0.0384)	(0.0387)	(0.0345)	(0.0351)	(0.0363)
Performance fee %								0.00811*
								(0.00417)
δ_{dummy} Performance fee %								-0.0151***
								(0.00573)
Management fee %	0.0523							0.188***
	(0.0639)							(0.0667)
δ_{dummy} Management fee %	0.0558							-0.0205
	(0.0801)							(0.0769)

Observations	523	515	515	515	515	515	515	535
R-squared	0.471	0.431	0.488	0.509	0.442	0.490	0.462	0.314