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Characterization of Islamic Investments Funds: A Systematic Literature Review

Mohammad Hariri[1]

[1] College of Business Administration, Umm Al-Qura University, Makkah, Saudi Arabia

Correspondence: Mohammad M Hariri, College of Business Administration, Umm Al-Qura University, Makkah, Saudi Arabia.

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Abstract

This study synthesizes the findings of previous studies on Islamic investment funds through a systematic literature review. Relevant documents were selected through scoping, planning, searching, screening, and eligibility. Subsequently, the primary documents for each topic were categorized, and relevant information was extracted. The following two dimensions of Islamic investment funds' activity have emerged: social and financial. The social dimension is constituted by Shariah precepts that govern the management of Islamic investment funds to promote socially responsible investment. Islamic investment funds do not fulfill their role as promoters of social responsibility. The financial dimension refers to assessing the performance and efficiency of Islamic investment funds compared with other types of investment funds. Evidence on this point is controversial. To the best of the author's knowledge, this is the first secondary study on Islamic investment funds. The contradictions in the financial dimension open new avenues for more secondary studies, such as meta-analyses. A limitation of this study is that the search for documents was conducted with the use of specialized search engines without exploring other.

Keywords: financial efficiency, financial performance, Islamic investment funds, Islamic law, Islamic mutual funds, Shariah, Shariah-compliant, Saudi Arabia, social responsibility

1. Introduction

Islamic investment funds, also called Islamic mutual funds or Shariah-compliant investment funds (SCIFs), arose in the mid-1980s to offer investors practicing the Muslim religion investment vehicles that would operate under the precepts of Islam. Since their initiation, the SCIFs have become a fast-growing sector in financial markets (Abdul et al., 2017; Alotaibi & Hariri, 2020; Arif et al., 2019; Hassan et al., 2020). However, they have also been an object of scrutiny by academics and practitioners who want to discern whether compliance with Shariah affects their performance or impact on society. Therefore, a rich body of primary research has accumulated on SCIFs that, to our knowledge, has not yet been systematized to provide an overview of these issues in secondary studies.

This study provides a systematic review of the SCIF literature by synthesizing previous findings related to the following topics: (a) the mandates of Shariah that regulate the SCIFs and their religious foundations, (b) financial performance of the SCIFs relative to their counterparts, and (c) financial and social status of the SCIFs in Saudi Arabia. The systematic literature review scoped, planned, sought, and selected 31 eligible studies published in the last five years (2016–2021). This methodology allowed us to conclude that there are two dimensions of Islamic investment funds—social and financial—and we discuss their effects on society leading to controversial findings. In the financial dimension, contradictory findings open new avenues for meta-analytical investigations that contribute to elucidating these results.

The rest of this article is structured as follows: section 2 outlines the methodology for obtaining the primary documents. Section 3 states the characteristics of the investment funds. Section 4 examines the social dimension of the SCIFs, discusses the religious justification of Islamic finance and the Shariah mandates on the SCIFs, and explores whether these funds play a social role in the Kingdom of Saudi Arabia (KSA). Section 5 examines the financial dimension of SCIFs, which includes the evaluation of financial performance and efficiency, especially from findings in Saudi Arabia. Finally, Section 6 presents the conclusions, research limitations, and implications of this study.

2. Methodology

A systematic review can provide a summary of previous studies and identify the gaps in knowledge in a subject area (Webster & Watson, 2002). The systematic review process used in this study was designed according to a 5-stage protocol that invloved scoping, planning, searching, selection, and eligibility. Subsequently, 2,006 documents were found, of which 31 were selected at the end of the process. The stages are described in continuation.

2.1 Scoping

This stage involves asking the research questions and identifying the search engines used in the search for relevant documents. The objective of this systematic review is to analyze and synthesize documents that provide an overview of the literature on the following questions: 1) What are the mandates of Shariah that regulate SCIFs? What is their religious foundation? 2) Is the financial performance of SCIFs competitive relative to that of their counterparts? 3) What is the financial and social status of the SCIFs in Saudi Arabia? The systematic search for documents was performed using two academic search engines, Ingenio and Google Scholar, which belong to the Polytechnic University of Madrid and Google, respectively.

2.2 Planning

In this stage, keywords were chosen for two categories. The first refers to the main subject and includes the terms “Islamic Investment Fund” and “Islamic Mutual Fund.” The second category is the keyword “Saudi Arabia,” which is the context of the investigation. Other keywords, such as “Performance,” “Efficiency,” “Islamic Law,” “Shariah,” and “Socially Responsible Investment” were used as eligibility criteria.

2.3 Searching

A gross search via Ingenio was performed by combining the keywords with Boolean operators as follows: “Islamic Investment Fund” OR “Islamic Mutual Fund” AND “Saudi Arabia.” A total of 743 documents were collected. To refine the search, it was specified that the keywords “Islamic Investment Fund” or “Islamic Mutual Fund” should appear in the title of the document. Thus, a total of 51 potentially relevant documents were obtained.

In Google Scholar, the following two broad searches were performed: “Islamic Investment Fund” AND “Saudi Arabia,” which retrieved 352 documents, as well as “Islamic Mutual Fund” AND “Saudi Arabia,” which revealed 951 files. These searches were refined using the following criteria: (a) documents must contain the keywords “Islamic Investment Fund” or “Islamic Mutual Fund” in their titles; (b) documents must contain the keyword “Saudi Arabia” in any part of their content; and (c) access to the full text must be provided. Using this procedure, 19 eligible documents were collected. A total of 51 documents from Ingenio were collected and exported to EndNote for bibliographic handling. This procedure is summarized in Table 1.

Table 1. Search strategy in Ingenio and Google Scholar

Engine	Step	Line	Boolean	Keyword	Filter	No Docs
Ingenio	Gross search	1		“Islamic Investment Fund”	None	739
		2	OR	“Islamic Mutual Fund”	None	
		3	AND	“Saudi Arabia”	None	
	Refine	1		“Islamic Investment Fund”	Title	47
		2	OR	“Islamic Mutual Fund”	Title	
		3	AND	“Saudi Arabia”	None	
Google Scholar	Gross search 1			“Islamic Investment Fund" “Saudi Arabia”	None	351
	Gross search 2			“Islamic Investment Fund" “Saudi Arabia”	None	915
	Refine			“Islamic Investment Fund”	Title	22
			OR	“Islamic Mutual Fund”	Title	
			AND	“Saudi Arabia”	None	
			AND		Full text available	

2.4 Screening

In this stage, 51 studies in EndNote were checked for duplicate references. Six were found and eliminated, leaving 45 studies. Next, access to the full texts of these 45 documents was verified and 33 of them were excluded from the process for not being accessible, leaving a remainder of 12 documents. After the screening stage, 19 documents from Google Scholar and 12 from Ingenio remained, for a total of 31 documents that met the eligibility criteria.

2.5 Eligibility

At this stage, the final selection was made according to the following eligibility criteria: (a) the study is relevant to the keywords "Islamic Investment Fund" or "Islamic Mutual Fund"; (b) the study is relevant to one or more of the following keywords: "Performance," "Efficiency," "Islamic law," "Shariah" and "Socially responsible investment"; and (c) the study contributes to answering at least one of the research questions. The title, abstract, discussion, and conclusions of each document were evaluated with respect to the eligibility criteria. It was found that all documents conformed to them. Consequently, 31 relevant documents were selected for this review. The entire process of the systematic search and selection of documents is described in the "Preferred Reporting Items for Systematic Reviews and Meta-analyses (PRISMA)," as shown in Figure 1.

2.6 Overview of Relevant Sources

A synthesis of the most outstanding characteristics of the sources included in this review was made, indicating that 19 of the documents addressed financial performance, three addressed efficiency, seven addressed the social role of the SCIF, and nine addressed compliance with the Shariah. The main web resources in which Ingenio found the relevant documents were Proquest Central (34 documents), the AB/INFORM Collection (27 documents), and the Alma/SFX Local Collection (26 documents). Ingenio consulted 17 other databases and repositories.

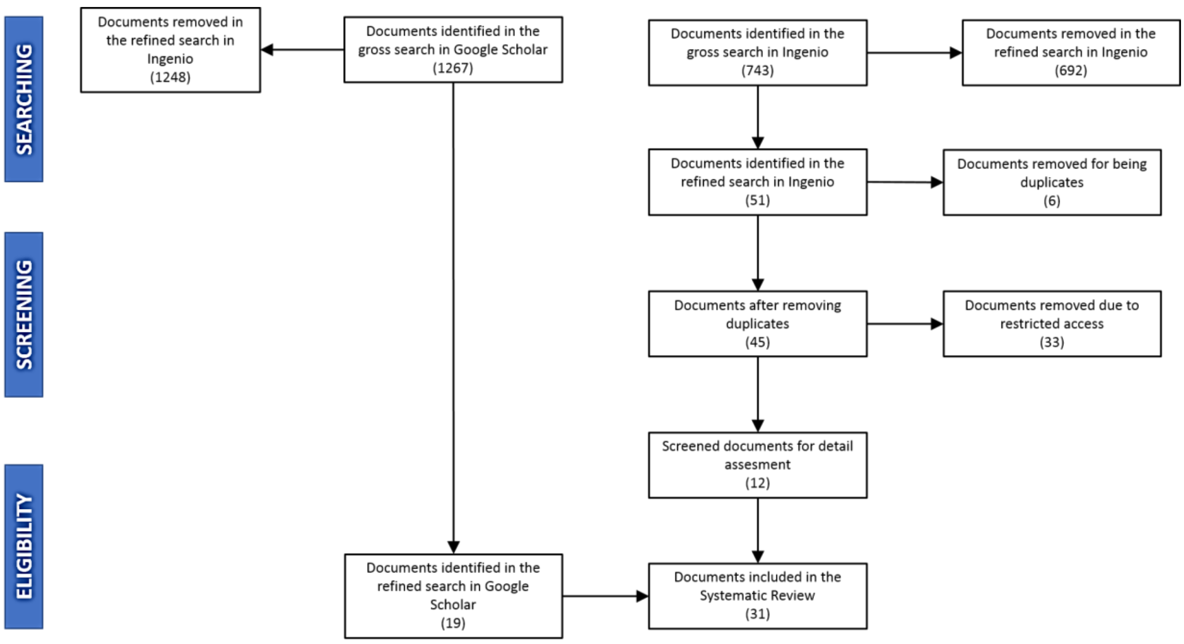

Figure 1. PRISMA statement

Source: Author (2021).

3. Conceptualization of Islamic Investment Funds

SCIFs are a class of investment funds that must comply with Islamic law (Abdul et al., 2017; Hassan et al., 2020). The SCIF arose in response to the need of Muslim investors for profitable investments that comply with the precepts of Islam. These concepts are developed further in this section.

An SCIF has the same characteristics as a conventional investment fund in terms of being a repository of investment capital, collecting individual savings to invest, and sharing benefits (Abdul et al., 2017).

Mutual funds are a type of indirect investment developed by asset management firms that specialize in collecting large sums of money from investors to invest in asset portfolios. Dividends, interest, capital gains or losses, and net asset values provide financial rewards to investors (Abdelsalam et al., 2017). These gains (or losses) are proportionally shared among investors (Arif et al., 2019; Asad & Siddiqui, 2019). Investment funds provide several benefits to small individual investors, making them attractive alternatives.

An investment fund is managed by fund management professionals who seek to increase investors' wealth (Arif et al., 2019; Naveed et al., 2020). This, consequently, gives individual investors limited time and experience access to information, knowledge, and professional advice (Alamet al., 2017). Investment funds have diversified portfolios, which can be very attractive because they reduce the risk of serious losses in the face of a specific problem in a sector (Arif et al., 2019). Minimizing this risk can benefit small investors because the cost of building a diversified portfolio can be onerous (Arif et al., 2019). Another benefit of investment funds is their high liquidity, which allows individual investors to sell their shares to the funds at any given moment.

Investing in a mutual fund presents several problems for Muslims due to the investment's legitimacy. Alam et al. (2017) contended that investment funds are similar to other types of Islamic investments, such as Musharka and Mudarabah. On one hand, in Musharka, two or more partners contribute funds to a joint venture, which is based on a simple partnership and serves as the foundation for capital investment. This modality is commonly used in real estate financing. On the other hand, Mudarabah involves the investment of a group of shareholders led by a professional fund manager. This is the foundation of the investment funds (Aras, 2016). Under certain conditions, Shariah law also allows SCIFs to use other investment types, such as Murabaha (financing of additional costs), Ijarah (lease), Sukuk (Islamic bonds), commodities, real estate, money markets, and mixed investment funds (Alotaibi & Hariri, 2020).

4. The Social Dimension of SCIFs

Since the 1980s, the socially responsible investment (SRI) movement has posed a global challenge to the traditional investment philosophy. It incorporated social, ethical, and environmental issues into the investment decision-making process beyond the mere notion of "maximizing returns" to make the world a better place (Ahmed, 2018). The SRI outlines an investor motivated by the desire to align their ideals with economic interests and promotes a positive impact on communities, employees, clients, shareholders, and the environment (Barom, 2019). In the Islamic world, there is a large proportion of Muslims who, for religious reasons, want to invest responsibly and fairly with respect to society and the environment (Hariri, 2013). SCIFs emerged in the 1990s as a response to this growing niche.

4.1 Religious Foundation of Islamic Finances

Islam shares the same values regarding SRI, including commitment to social interests, promotion of human well-being, environmental protection, concern for economic and social justice, and the responsibility to avoid harmful and unproductive activities. However, its foundation is derived from a divine paradigm that details the relationship between man and Allah, man with neighbors, and with other creations of God (Arif et al., 2019). Balancing the interests, rights, and obligations of an individual with community needs is a critical element of this paradigm. Allah gives human beings the responsibility of fulfilling His Will on earth, ordering what is good, and prohibiting what is evil, to achieve a good life for both the individual and society. This requires that individuals harmonize material well-being with moral-spiritual values, which is the key to achieving supreme happiness in this world and the Hereafter. Although everything belongs to Allah, an individual can use earthly resources to achieve prosperity, if they are in line with Allah's will. Islam recognizes private property; however, the community has certain rights over the wealth of the individual (Arif et al., 2019).

Islamic economics is viewed by its believers as part of a scientific effort to achieve economic goals within the Islamic worldview. The legal and ethical framework of Islam (Shariah) governs this effort. Shariah is based on the benefits of the individual and the community; its laws are designed to protect these benefits and facilitate the perfection of human life on earth (Ahmed, 2018). The primary goal of Shariah is to support social justice, fairness, and honesty in all business transactions. The Maqasid-al-Shariah theory and moral approach to economics fund the normative goals of Islamic finance and the economy.

4.1.1 The Maqasid-al-Shariah Theory

According to Alshater et al. (2021), the Maqasid-al-Shariah theory provides a holistic view of the Shariah, which demonstrates that the different and scattered rulings of Islamic jurisprudence can be systematically framed to serve a set of general objectives.

Maqasid-al-Shariah classified the benefits into the following three categories: essential, complementary, and desired. The preservation of the five basic elements of faith, life, mind, descent, and riches is at the heart of this theory and critical to human well-being, everlasting salvation, preservation of people's intellectual faculties, and that of progeny and wealth. Complementary components are required in people's lives, but their absence is neither life nor death, such as trade, marriage, and other types of interactions. Finally, desirable objectives are related to things that enrich life, such as being well dressed, using cosmetics, owning beautiful homes, and volunteering. Social responsibility procedures, such as detecting illegal cash flow, worker welfare, contributions to community development, environmental stewardship, and charitable donations, have been introduced into Islamic financial institutions owing to the Maqasid theory (Alshater et al., 2021).

4.1.2 The Moral Approach to Economics

The moral approach to economics is an axiomatic one based on various Islamic precepts derived from the Holy Quran and the tradition of the Prophet (Bulankina et al., 2016). These axioms include justice, beneficence, supreme happiness, equality, social interdependence, brotherhood, hisba, mercy, benevolence, charity, and qard hassans.

The term “justice” signifies that everyone should be judged based on their actions (Henry, 2019). The notions of social and economic justice in Islam include equitable exchange, equality of all men, equal opportunities, equitable distribution of wealth, sustainable development, freedom of conscience, social interdependence, mercy, help, and mutual responsibilities between individuals, and moral rectitude and fairness (Alotaibi & Hariri, 2020). In accordance with Mahomed (2018), Islam insists that justice be guaranteed through a negative-positive dual approach; that is, all elements of injustice should be avoided, and those for the promotion of justice must be defended. The negative approach implies the prohibition of earning interest (riba), excessive risk or speculation (gharar), games of chance (mysir), or profits obtained through fraud, bribery, monopoly, discriminatory practices, exploitation of workers, hoarding, and the irresponsible exploitation of natural resources. The positive approach entails trust between the parties, faithful fulfilment of promises and contracts, transparency and honesty in economic matters, access to productive resources, equal opportunities, societies based on equity, just compensation, guaranteeing the basic needs of the homeless, protecting the weakest members of the community, and promoting charity and benevolence. Both approaches were observed throughout the analysis of this paper.

Beneficence (ishsan) implies altruistic behavior in which individuals prioritize others and sacrifice their own rights. In other words, beneficence is giving more and taking less than what is due. The ishsan precept persuades its followers to behave magnanimously when making transactions, claiming rights, and fulfilling obligations.

The issues of life are inseparable from life. Hence, worldly well-being is a condition for the realization of the supreme happiness (falah) of an individual. Falah encompasses both material and spiritual developments. Hence, falah justifies why the objectives of the Islamic economy do not conflict with life. Therefore, an economic agent will try to balance the motives of self-interest and material pursuit with social interest and spiritual development (Castro et al., 2020).

The term “equality” signifies that all people should have a good life and that the community is required to distribute its wealth equally (Alotaibi & Hariri, 2020). Equality does not mean complete equality in wealth, but in a way that everyone can enjoy what they deserve.

Social interdependence (takaful) means that everyone in society must help people in need to meet their basic needs (Alotaibi & Hariri, 2020). The basic concept of takaful is reciprocity, and its objectives are cooperation, social responsibility, brotherhood, and social equality.

Brotherhood is based on community principles. Its concept involves the personal relationship between two people that makes them care about each other (Alotaibi & Hariri, 2020).

Supervision (hisba) is the practice of verifying community actions to prevent unfair ones (Alotaibi & Hariri, 2020). Mercy emphasizes tolerance and forgiveness (Alotaibi & Hariri, 2020). According to Obaidullah, as cited by Alotaibi and Hariri (2020), the Prophet Muhammad said: “Believers, in their mutual affection, mercy, and sympathy, are like the body: if one of their organs suffers and complains, the whole body responds with insomnia and fever”; therefore, investments must not be detrimental to the health of people, the environment, or society.

Benevolence and charity (zakat and sadqa) are two methods of fulfilling justice and the equitable distribution of wealth (Alotaibi & Hariri, 2020). Zakat is a mandatory religious tax, usually 2.5%, which is applicable to the unproductive assets of sane and free Muslim adults that are held for at least one lunar year. For its part, sadqa is a voluntary charity in the name of God. It supports the work of non-governmental organizations and is used to finance microenterprises and microfinancial institutions.

The qard hassan is the granting of an interest-free loan to the needy for social purposes. It is used to finance microfinance institutions or establish investment funds to provide people with a qard hassan out of the fund’s earnings. Building on these religious foundations, that guide the Islamic perspective on economics and social responsibility, the next section sets out the mandates that the SCIFs must fulfil.

4.2 Fundamental Principles of Shariah Applicable to SCIF

Shariah does not deny market forces, although they are not given total freedom and must submit to divine prescriptions (Ahmed, 2018).

Shariah prohibits many assets available for conventional funds (Nainggolan et al., 2016). All these prohibitions preserve balance, distributive justice, and equal opportunity and must always be respected in any transaction (Nainggolan et al., 2016). The principles are detailed below.

Shariah prohibits investment in shares of companies that are known to pollute society, degrade the environment, discriminate against employees, negatively affect dignity, or promote the exploitation of others (Hassan et al., 2020). Examples include pork, alcohol (non-medical), gambling, non-Islamic financial services, pornography, tobacco, and weapons.

Muslims believe that this economic gain should come from effort (Nainggolan et al., 2016; Alotaibi & Hariri, 2020). Money is simply a medium of exchange; it cannot be used as an asset and cannot generate profits. Therefore, SCIFs should not involve interest-based earnings or use interest-paying debt to finance investments (Alotaibi & Hariri, 2020). Therefore, a SCIF cannot invest in conventional bonds, warrants, preferred stocks, certificates of deposit, or some derivatives (Nainggolan et al., 2016).

Any type of ambiguity in contracting is prohibited by Shariah (Nainggolan et al., 2016). Gharar is defined as starting a business blindly without adequate knowledge or conducting an excessively risky or speculative transaction (Asad & Siddiqui, 2019). Consequently, any uncertainty regarding the quantity, quality, deliverability, or existence of the asset to be traded is prohibited. An Islamic economic unit is expected to conduct an informed risk assessment (Choudhury et al., 2020). The gharar precept rejects commercial insurance and its financial derivatives because it involves unidentified risks and uncertainties. The only type of insurance that is not prohibited is financial takaful, in which participants contribute money to a common fund and are compensated in specific cases (Alotaibi & Hariri, 2020).

The Mysir precept prohibits gambling activity because it is related to risk and speculation (Alotaibi & Hariri, 2020). Alotaibi and Hariri note that some things that are haram can be made halal (permissible) if necessary, under the principle of hajjah (general necessity). When an activity is halal, some elements of haram may be allowed if they are prohibited from general welfare.

4.3 Shariah Regulations of SCIF

The Shariah governs various aspects of SCIFs, including their structure, asset allocation, business and investment practices, distribution of income, and donations to charity of the portion of income derived from prohibited activities (purification) (Masiukiewicz, 2017). These characteristics are described below.

4.3.1 Shariah-Compliance Supervisory Board

According to the Accounting and Audit Organization for Islamic Financial Institutions (AAOIFI), the Shariah-Compliance Supervisory Board (SSB) is an independent committee of jurists specializing in Islamic commercial jurisprudence and financial institutions whose purpose is to monitor investments and fulfil the principles of Shariah. This committee represents an outstanding feature that distinguishes SCIFs from their counterparts (Naveed et al., 2020). The SSB is responsible for the following: (a) establishing investment guidelines in accordance with Shariah principles; (b) supervising the activities of the fund to ensure compliance with said principles; (c) supervising the purification of income; (d) assisting in the management of funds with problems of interest to the Muslim community; (e) advising on Zakat; (f) defending the rights of investors, ensuring that money is invested within the scope of Shariah; and (g) reporting on the financial situation of the fund, addressing concerns that are important to investors (Arif et al., 2019).

4.3.2 The Investment Process

Ideally, the investment process is divided into three distinct phases, governed by religious prescriptions—(a) portfolio asset allocation, (b) commercial instruments and strategies, and (c) distribution and purification of income (Alotaibi & Hariri, 2020).

(a) Portfolio asset allocation (screening)

SCIFs must conduct a screening process to select companies that meet the qualitative and quantitative criteria established by Shariah (Rafay et al., 2017). There are two criteria for selecting the portfolio for a SCIF, positive screening and negative screening. On the one hand, positive screening emphasizes investment in companies that have a positive impact on the economy, environment, and other relevant areas of society, with a “best-in-class” approach. It focuses on choosing companies with higher standards in matters such as corporate governance or environmental protection. This type of screening is rarely used (Alotaibi & Hariri, 2020). On the other hand, negative screening aims to identify "bad" companies to avoid investing in them (Alotaibi & Hariri, 2020). Negative screening establishes the first stage in eliminating non-Shariah-compliant industries and, at the second level, eliminates companies with financial ratios that exceed the acceptable level. In this process, SCIF administrators use two types of guidelines, sectoral and financial (Alotaibi & Hariri, 2020).

Sectoral guidelines are used to eliminate portfolio companies that contain haram or any of the elements prohibited by Shariah, or engage in unethical business practices, such as biotechnology, using aborted embryos and human cloning, conventional bonds, warrants, preferred stocks, certificates of deposit, corporate bonds, ad valorem bonds (Peillex et al., 2019). Once the process of applying the sectoral guidelines was complete, the application of the financial guidelines began. The remaining stocks are analyzed based on quantitative screening related to debt, interest-bearing values, receivable accounts, and cash. Financial guidelines stipulate that companies must meet three financial criteria—(a) total debt divided by total assets must not be equal to or greater than 33%, (b) accounts receivable on total assets must not be equal to or greater than 45%, and (c) non-operating interest income must not be equal to or greater than 5% (Peillex et al., 2019).

(b) Instruments and commercial strategies

Peillex et al. (2019) stated that once it is decided which companies can be included in the portfolio, the fund manager must comply with the rules relating to portfolio management activity.

(c) Distribution and purification of income

There may often be partially contaminated income, which the law allows for purification; that is, gifting it to charity (Arif et al., 2019). Once the administrators and SSB have identified what is not acceptable from a Shariah perspective, they must deduct the haram portion of the profits from the returns. This purification process is performed by the fund manager prior to any income distribution or by reporting the financial ratios necessary for investors to purify their earnings. Zakat is one form of purification (Arif et al., 2019).

4.4 The Social Dimension of SCIFs in Saudi Arabia

SCIFs emerged and may have adopted a Western style of fund management due to globalization, which has negatively impacted the social roles of SCIF stakeholders, including investors, SSB members, investee enterprises, regulatory boards, and fund managers. Recent research (Alotaibi & Hariri, 2020) providing evidence of the social role of SCIFs in Saudi Arabia has confirmed that they are detached from Islamic principles and do not play the societal function that they should. These SCIFs reject Islamic ideals of social roles in favor of economic success and benefits. As a result, they lack positive selection criteria for fulfilling their social function, which, consequently, leads to the lack of a social responsibility approach. According to the philosophy of capitalism, the quest for profit has caused SCIFs to disregard their social duties; commercialism has influenced SCIFs such that social responsibility has deviated from its agenda (Alotaibi & Hariri, 2020).

5. Financial Performance of SCIFs

Evaluating financial performance is a crucial aspect of finance (Omri et al., 2019). Financial performance suggests that investors want to invest in funds that offer the best returns with acceptable risk. However, useful measures must be taken by fund managers to improve profitability. Investment objectives vary from person to person, although people tend to prefer high returns and less risk (Arif et al., 2019). Consequently, the current literature predominantly consists of studies on the profitability and risk assessment of investment funds (Climent et al., 2020) based on historical net asset values (NAV).

Evaluating the performance of investment funds has become a primary concern for financial investors and managers (Tuna & Tuna, 2019). As a result, since the introduction of SCIFs to the stock market, academics and practitioners have debated whether Shariah-based restrictions affect their financial performance. While there are numerous empirical studies on this subject, they all have one thing in common—they measure the financial performance of the SCIF, then compare it to a counterpart.

5.1 Performance Measurement

The financial performance of investment funds is measured through various models, which can be classified into those based on unique factor risk-adjusted return, multi-factor risk-adjusted return, timing and selectivity skills, and other less frequent models. These models are briefly described in continuation.

5.1.1 Unique Factor Risk-Adjusted Return

In empirical studies, the most widely used performance measures are those based on the risk-adjusted return of a single factor, which are the capital asset valuation model (CAPM) (Climent et al., 2020) and the Treynor, Jensen, and Sharpe indices (Arif et al., 2019). The CAPM is based on an asset price equilibrium model that separates the risks of an asset into systematic and unsystematic. The beta coefficient (β) measures systematic risk (Atta & Marzuki, 2020). The Treynor index is equal to the excess return of the portfolio per unit of systematic risk (beta) (Climent et al., 2020). The Jensen Alpha Index is the performance of a given portfolio above the return predicted by CAPM beta (Climent et al., 2020). Finally, the Sharpe Index represents the excess return of the portfolio per unit of total risk. This index measures how well a portfolio compensates investors for the additional risk.

5.1.2 Multiple Factor Risk-Adjusted Return

These techniques include the Fama and French models and the Carhart model. Both refinements of the CAPM expanded the number of risk factors to increase the predictive power of return. Climent et al. (2020) used this model. The Carhart model is a refinement of the Fama and French models that improves their explanatory power. The Carhart model adds one more variable, which it calls momentum (MOM), referring to the average return of the portfolios that historically obtain profits minus the average return of the those that historically incur losses (Climent et al., 2020).

5.1.3 Timing and Selectivity Ability

Climent et al. (2020) used the ability to synchronize and select fund managers as a performance measure. This model is a modification of the Jensen index, in which the excess return between the fund and the market is a quadratic relationship multiplied by a coefficient that represents the synchronization and selection capacity of the fund’s managers.

5.1.4 Other Measures

Other less frequently employed measures include the non-risk-adjusted return, Modigliani and Modigliani MM, IR index, and TT index, which were used by Charfeddine et al. (2016). Rafay et al. (2017) assessed the performance of the SCIF based on volatility, as measured by the Autoregressive Conditional Heteroscedasticity (ARCH) and Generalized Autoregressive Conditional Heteroscedasticity (GARCH) models. The non-risk-adjusted return is simply the change in NAV over a given period.

The Modigliani and Modigliani MM indices convert the Sharpe index into a percentage of return, with the idea of presenting the return that the portfolio would have obtained if it had the same risk as the market benchmark index. The IR index is a performance measure that assesses the relationship between average active returns and active risk, where active risk indicates the extent to which a certain portfolio follows its benchmark (Charfeddine et al., 2016). The TT index is an extension of the Treynor index and measures the excess return of a portfolio per unit of systematic risk (beta) over the excess return in the market. Therefore, the TT measure can be considered as the difference between the portfolio and the market Treynor index (Rafay et al., 2017). ARCH and GARCH models are used to model financial time series with time-varying volatility. Both models are used to test whether fluctuations in volatility are consistent (Rafay et al., 2017).

5.1.5 Attributes of the Investment Funds

Other characteristics of funds that can influence their performance are size and age, the qualifications of administrators, transaction costs, commissions for sales, number of funds managed, volume of business, historical performance, liquidity, investment style, affiliation (governmental or private), gross domestic product, and interest rate (Asad & Siddiqui, 2019).

5.2 Performance Evaluation

Once the performance of an investment fund is measured, it is compared against parameters, such as stock market benchmarks or other types of investment funds, to determine whether they should be incorporated into the portfolio.

5.2.1 Comparison Against Market Benchmarks

Specific benchmarks have been developed that are useful for comparing the performance of certain types of funds, such as sustainability indices related to socially responsible investing and Islamic indices associated with the SCIFs. The conventional benchmarks used in the literature reviewed are the Standard and Poor 500 Composite Price (S&P 500), FTSE Index Series, and Dow Jones Index Series (Hussein, 2007). Other studies use sustainability indices (green benchmarks), such as the Dow Jones Sustainability Europe, Dow Jones Sustainability Europe ex AGTF, and FTSE4 Good Europe (Grira & Labidi, 2021). With the appearance of SCIFs in stock markets, the need arose to create Islamic indices to serve as benchmarks. For this reason, the literature has used the FTSE Islamic Index Series and the Dow Jones Islamic Index Series (DJII) (Grira & Labidi, 2021).

5.2.2 Comparison Against Other Types of Investment Funds

Another way to evaluate the performance of an investment fund is to compare it with the performance of funds of another class. The most frequently used method involves comparing the performance of the SCIF with conventional funds. This approach was used by Rafay et al. (2017), Arif et al. (2019), Asad and Siddiqui (2019), Climent et al. (2020), Hassan et al. (2020), and Naveed et al. (2020).

Another type of investment fund frequently used to compare the performance of SCIFs is socially responsible investment funds (SRIFs), as both types of funds have common characteristics in terms of searching for a social role. This has generated academic debate as to whether SCIFs can be considered a subset of SRIFs or are a different class of investment funds. Climent et al. (2020) used this type of performance evaluation method.

5.3 Compendium of Findings

5.3.1 SCIF Performance versus Conventional Investment Funds

According to the findings of Rafay et al. (2017), Arif et al. (2019), and Climent et al. (2020), the behavior of a SCIF is not significantly different from that of conventional funds. The use of Shariah filters had no negative impact on the performance of Islamic benchmarks. Over the time periods analyzed, Islamic benchmarks outperformed conventional benchmarks and, in many circumstances, could yield larger returns with less risk. SCIF returns are less volatile, and thus less dangerous than traditional funds. Evidence shows that Islamic funds outperform conventional funds during economic downturns (Naveed et al., 2020).

Contrarily, Hassan et al. (2020) found that conventional funds outperformed SCIFs during all periods studied, especially optimistic periods. During the crisis period, SCIFs posted a positive average return, while conventional funds showed negative returns. Hassan et al. (2020) partly explained the contradictory performance of Islamic funds based on the national characteristics of stock markets. The SCIFs of the biggest Islamic financial centers (Bahrain, Kuwait, Qatar, Saudi Arabia, United Arab Emirates, and Malaysia) perform competitively or even better than international stock market benchmarks.

Contradictory findings also exist regarding the influence of the characteristics of investment funds on their performance. Hassan et al. (2019) stated that historical performance, fund size, and payment of sales commissions are factors that are positively correlated with performance. In contrast, the transaction cost and liquidity of the fund are factors that negatively correlate with it; thus, to improve profitability, it is necessary to keep both transaction costs and cash levels low, while allocating funds in assets.

5.3.2 SCIF Performance versus the SRIF

It seems natural to include the SCIF in the SRIF family, since the general objectives of the economic rules of both are very similar (Hattab, 2021). In both cases, the improvement of society represents the ultimate purpose. For this reason, when evaluating the performance of SCIFs, two types of funds are often compared, either directly or using green benchmarks.

The findings of Climent et al. (2020) are consistent in stating that in all periods studied, there were no significant differences in the financial performance of SCIFs and SRIFs, although SCIFs presented lower systematic risk.

5.4 Financial Efficiency of an Investment Fund

A recent approach for evaluating the performance of investment funds is to measure their efficiency (Yarovaya et al., 2020), which can be defined as the relationship between a project's achievements and its resources. From a systemic perspective, efficiency is the output/input ratio. Financial efficiency refers to the relationship between the factors associated with returns (outputs) and those associated with the selection of assets (inputs). Among the inputs are stock prices (Arif et al., 2019), subscription fee, redemption fee, management expenses (Hassan et al., 2021), the standard deviation of the fund, the number of months the fund has been below the highest historical NAV, the risk of having a disadvantageous investment asset, and the percentage of return below the target rate (Hassan et al., 2021). The outputs include the expected total return, maximum period of consecutive profit, and benefit of having an advantageous investment (Arif et al., 2019).

To calculate relative measures of efficiency, various studies in operations research have used Data Envelopment Analysis (DEA), which is a nonparametric method (Hassan et al., 2020). Once the input and output specifications are identified, DEA estimates an enveloping frontier formed by these 100% efficient funds. This frontier represents the result of the combination of best practices in the industry; therefore, it is possible to construct a performance index based on the distance between specific funds and the constructed frontier. Consistent with the results of the evaluation of SCIFs performance with respect to other types of investment funds, the evaluation of efficiency provides mixed evidence. Arif et al. (2019) found that SCIFs are persistently more efficient and perform better than conventional funds.

5.5 Financial Dimension of the SCIFs in the KSA

Similar to the studies on the social dimension of the SCIFs in the KSA, the literature that deals with its financial dimension is scarce. Most of the studies reviewed were conducted in international stock markets. Hassan et al. (2020) affirmed that SCIFs have a competitive performance in relation to conventional funds in the KSA and other Gulf Cooperation Council (GCC) countries. With regards to efficiency, Hassan et al. (2020) argue that SCIFs in the KSA were more efficient than US and international investment funds.

6. Conclusions

This study performed a systematic literature review of Islamic investment funds. It addressed the conceptualization of an SCIF and its social and financial dimensions. Despite the Shariah regulatory framework, recent research has claimed that the SCIFs in the KSA are disengaged from Islamic principles and do not fulfil a socially responsible role in society as they should. These SCIFs do not embrace Islamic concepts of social responsibility, and instead focus on economic performance and benefits. Arguably, SCIFs have adopted a Western style of fund management because of globalization.

Concerning the financial dimension of SCIFs, an intense academic debate is ongoing on whether the Shariah regulatory framework has any effect on the financial performance and efficiency of SCIFs compared to their counterparts. Financial performance is defined as the return received by the investor at a desired level of risk. Its evaluation is conducted in two parts—measurement of the performance and comparison with the performance of a counterpart. Performance measurements were conducted using a wide variety of techniques, with risk-adjusted return measures (the Treynor, Sharpe, Jensen, Fama, and Carhart indices) being the most widely used. A comparison was then made against other investment funds (conventional and/or socially responsible investment funds) or some benchmark of the stock market (conventional, "green," and/or Islamic).

The findings on the performance of SCIFs compared to conventional funds are mixed. Some researchers found that the performance of the SCIFs did not differ from that of conventional funds, and that the application of Shariah filters did not have an adverse impact on their performance. During all the periods studied, SCIFs performed as well as conventional funds and, in many cases, could generate higher returns with less risk. SCIF returns are less variable, and therefore less risky than conventional funds. In contrast, other studies have found that conventional funds outperformed SCIFs during the overall and bullish periods. During crisis periods, the SCIFs registered a positive average return, whereas conventional funds showed negative returns.

Other studies comparing SCIFs with SRIFs are contradictory. Most affirm that there are no significant differences in the financial performance of the SCIFs and SRIFs in all periods, although SCIFs present a lower systematic risk. However, other findings contradict this conclusion since it is evident that the "green" portfolio exceeds the Islamic portfolio in all periods.

Another approach used in the financial dimension is efficiency, which refers to the relationship between the factors associated with returns (outputs) and the selection of assets (inputs). The findings provide mixed evidence; two studies found that SCIFs are more efficient and perform better than conventional funds, while another concluded that conventional funds perform equally or slightly better than SCIFs.

The evidence is also mixed regarding the financial performance of SCIFs in the KSA stock market. On the one hand, it was found that SCIFs have a competitive performance and are more efficient than their conventional counterparts in KSA and GCC countries. On the other hand, there is also evidence to the contrary in that the performance of SCIFs is worse than that of conventional funds, although they are less risky.

From a regulatory perspective and its implications, recent research claims that SCIFs in the KSA are disengaged from Islamic principles and do not play a socially responsible role. In terms of the financial dimension of SCIFs, an academic debate is raging over whether the Shariah regulatory framework has any effect on the financial performance and efficiency of SCIFs compared to their counterparts.

6.1 Limitations and Implications of the Research

To the best of our knowledge, this is the first secondary study attempting to synthesize knowledge surrounding SCIFs. Contradictory findings in the financial dimension open new avenues for meta-analytical investigations that contribute to the elucidation of these results.

Regarding the limitations of the study, the search for relevant documents was performed only through formal secondary channels, with specialized search engines in multiple databases and repositories. Informal or primary formal channels, such as consultations with researchers or organizations or a direct review of the main journals on the subject, were not explored. These methods could therefore be of great use in future research.

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