CHAPTER I

INTRODUCTION

1.1 Background of the study

Nowadays, all the transparency and technology development seems like simplify us to find the information of financial performance within mutual fund. The most basic technique is by observing mutual fund risk and return. The measurement of mutual fund performance is very important considering it may indicate the outperform or underperform of the mutual fund itself compared to Jakarta Composite Index (JCI). A good performance of mutual fund may become one of the elements considered by the investors, remembering there are three kinds of investor which are risk averse, risk taker, and risk neutral.

One of the most growing investments nowadays is the mutual fund. BAPEPAM data shows the amount of mutual fund year 2008 reach until Rp 73 trillion of Net Asset Value (NAV) and it keep growing for the years after. In 2009, the Net Asset Value reach Rp 109 trillion, and in the end of 2012, the Net Asset Value reach up to Rp 182 trillion.

Mutual fund is a flexible investment and organized by Fund Manager. It is particularly suitable for investors who do not have much time, lack of investment knowledge and capability, and also limited fund. One of the mutual fund types is equity funds. Equity funds is a type of mutual fund which the investment must be minimum 80% of the portfolio managed in stock effect. Stock effect generally gives higher return in the form of capital gain by the growth of stocks prices. This kind of investment is promising and it also a long term investment, which is more than 5 years. With the fluctuate price of stock, equity funds may gives higher return compare to other type of mutual fund but as well as the risk.

According to the State Law number 8 year 1995, Mutual Fund is a form to collect the fund among investors to henceforward invested on portfolio effect by fund manager to several investment instruments such as bond, foreign exchange, even deposits and other securities.

The success of fund manager can be seen by the return given to the investors. One of the indicators to assess the mutual fund is the Net Asset Value or NAV. Net Asset Value is the amount of investment and cash held, after reduced by expenses, and debts of operational activities.

The goal of this research is to compare the equity funds performance with the market performance. The analysis used to compare the equity funds performance with the market performance is Risk Adjusted Return method, Risk Ratio method, and Snail Trail. The result of this analysis becomes very important in investment decision. Investors will analyze the performance of equity funds as consideration on their decision making. The comparison between equity funds performance and market performance use only the Net Asset Value and limited to the equity funds listed in Badan Pengawas Pasar Modal or BAPEPAM. The period used is the Net Asset Value from January 2008 to December 2012. As we know, in year 2008 there were a global crisis hit the world and it affected Indonesia's economic condition as well. The researcher wants to know whether the mutual fund is able to do some improvements from the crisis, as the result is seen in the end of research year.

This thesis conducted based on previous researches which are research about the performance analysis of fixed income mutual fund by Hotniati Simamora (2011). That research uses 21 mutual fund company listed in BAPEPAM year 2005 – 2010 as the sample. That research compares the fixed income mutual fund performance with market performance. The result of the research is most of the fixed income mutual fund shows quite good performance; even some of them show negative results which mean the fund manager still unable to do adjustment to get higher return.

The motivation to know the result of performance comparison to other type of mutual fund, which is an equity funds, is the researcher reason to do a research about **"THE PERFORMANCE ANALYSIS OF EQUITY FUNDS USING RISK ADJUSTED RETURN, RISK RATIO, AND SNAIL TRAIL".** Researcher wants to know how the performance of equity funds performance compare to the market performance is.

1. Statement of Problem
   a. How is the performance of equity funds by using Risk Adjusted Return method, Risk Ratio method, and Snail Trail?
   b. Is the performance of each equity funds different with the market performance?
2. Scope of Study

   To limit this research in order that this problem will not be studied very wide and complex, this research will be limited the scopes of study, which are:

   a. This research is just covering the equity funds actively listed in BAPEPAM for period January 2008 until December 2012.
   b. This research uses the data of Net Asset Value (NAV) for period January 2008 until December 2012.
   c. The mutual fund with zero NAV in the end of calculation and with foreign currency of NAV is not used as sample.

d. The performance analysis of equity funds uses Risk Adjusted Return, Risk Ratio, and Snail Trail.
e. The benchmark is JCI or Jakarta Composite Index for period January 2008 – December 2012.

1.2 Objective of the Study

The objectives of this research are:

a. To explain the performance of equity funds by using Risk Adjusted Return method, Risk Ratio method, and Snail Trail.
b. To compare between equity funds and market performance.

1.3 Benefits of the Study

The benefits of this research are directed to:

a. The researcher

   This research can be used to increase knowledge about the performance of equity funds performance compare to market performance by using Risk Adjusted Return method, Risk Ratio method, and Snail Trail.

b. The investors
   1. Investors can use the result of this research as a tool in their investment decision.
   2. This research can be used as a tool to provide feedback to fund manager.

c. The readers and academic people

1. The result of this research can be used by the readers and academic people to increase their knowledge about the analysis of equity funds performance by using Risk Adjusted Return method, Risk Ratio method, and Snail Trail.
2. This research can also be used as a literature for the next research.

1.4 Systematically Writing

CHAPTER I INTRODUCTION

The introduction talks about the background of the research, statement of problem, scope of the study, objective of the study, benefits of the study, and systematically writing.

CHAPTER II THEORETICAL BACKGROUND

The theoretical background consists of some theories used to support the research such as mutual fund explanation, mutual fund classification, and the benefits of mutual fund investment. Theoretical background will be divided into two parts: review of literature and review on related study.

CHAPTER III DATA AND RESEARCH METHODOLOGY

In data and research methodology, there are explanations about the data sampling and research method used. In the data sampling, it states about population and sample description including sampling technique, and data collection. In the research methodology method, it states about steps in analysing the data research.

CHAPTER IV DATA ANALYSIS

Data analysis discusses about the results and the analysis of the result from this research, and also presents the research data and the data analysis of equity funds performance using Risk Adjusted Return, Risk Ratio, and Snail Trail.

CHAPTER V CONCLUSION

In conclusion, it concludes the research and provides some slacks that can be used by investors, fund manager, and the next research to improve the research about the similar topic.