

MARKET TIMING, STOCK SELECTION, AND FUND CASH FLOW EFFECTS ON ISLAMIC EQUITY FUND PERFORMANCE

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Abstract

This study aims to determine the condition and influence of market timing ability, stock selection ability, and fund cash flow on the performance of sharia equity mutual funds registered with the Indonesia Financial Services Authority (OJK) during the 2021–2024 period. Employing a quantitative method with a survey approach, this research analyzes secondary data obtained from fund fact sheets using panel data regression. The results indicate that while all variables exhibited fluctuating values, market timing and stock selection abilities possess a positive and significant effect on mutual fund performance. Conversely, fund cash flow shows no significant impact. Theoretically, this study reinforces portfolio management and active portfolio management theories by emphasizing the vital role of an investment manager's competence in generating optimal returns through strategic timing and stock selection. Furthermore, the insignificance of fund cash flow implies that direct contributions to performance are heavily mediated by external dynamics, including intense market volatility, portfolio adjustment time lags, and shifting investor behavior during the post-pandemic economic recovery phase.

Keywords: Market Timing Ability, Stock Selection Ability, Fund Cash Flow, Mutual Fund Performance

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1. Introduction

Capital markets play a pivotal role in promoting economic growth by mobilizing financial resources, facilitating capital allocation, and supporting business expansion. In Indonesia, the capital market has become an increasingly important instrument for strengthening economic resilience and accelerating post-pandemic recovery. The government has emphasized the strategic role of the financial sector in stimulating investment and maintaining economic stability through the development of a more inclusive and resilient capital market (Kementrian Koordinator Bidang Perekonomian, 2020). Despite the availability of various financial instruments, including stocks, sukuk, and mutual funds, investor participation remains constrained by limited financial literacy, capital, and time to respond to rapidly changing market conditions.

Alongside the expansion of conventional financial instruments, the Islamic capital market has experienced remarkable growth, driven by increasing public awareness of Sharia-compliant investments, supportive regulatory frameworks, and the rapid development of the Islamic finance industry. According to the Islamic Financial Services Board (IFSB, 2025) the global Islamic financial industry continues to demonstrate sustainable growth, with Islamic capital market assets representing one of the fastest-growing segments. Consistent with this global trend, the Indonesia Financial Services Authority (OJK) reported continuous growth in the number of Islamic mutual funds and assets under management (AUM), indicating increasing investor confidence in Sharia-compliant investment products (Otoritas Jasa Keuangan, 2025).

Among various Islamic capital market instruments, Islamic mutual funds have become one of the most attractive investment alternatives because they enable investors to diversify their portfolios through professional investment management while complying with Sharia principles. Mutual funds provide an alternative investment instrument by delegating portfolio management to professional investment managers, allowing investors to achieve diversification with relatively low effort (Setianto, 2016). Unlike individual stock investments, Islamic mutual funds allow investors to delegate portfolio management decisions to professional investment managers who are responsible for selecting securities, adjusting portfolio composition, and managing investment risks. Consequently, the quality of investment management becomes a critical determinant of mutual fund performance, particularly in Islamic equity mutual funds where portfolio construction must simultaneously satisfy financial objectives and Sharia screening requirements.

Despite the encouraging growth of Indonesia's Islamic mutual fund industry, the performance of Islamic equity mutual funds remains highly heterogeneous. Empirical evidence from the industry reveals contrasting outcomes among investment managers. On the one hand, certain Islamic equity mutual funds have demonstrated exceptional growth. For example, a Sharia equity mutual fund managed by Henan Putihrai Asset Management recorded an annual increase in net asset value (NAV) of approximately 145.05%, reflecting the investment manager's ability to formulate effective portfolio strategies and respond to changing market conditions. On the other hand, several mutual fund products managed by Minna Padi Asset Management were dissolved by the Indonesia Financial Services Authority (OJK) following regulatory violations and weak portfolio management practices. These contrasting cases suggest that mutual fund performance is not determined solely by external market conditions but is also strongly influenced by the competence, strategic decisions, and governance quality of investment managers. Such evidence reinforces the importance of understanding the factors that enable investment managers to consistently deliver superior performance while maintaining compliance with Sharia principles.

Consistent with this phenomenon, the portfolio management literature identifies market timing ability and stock selection ability as two fundamental managerial competencies that contribute to mutual fund performance. Market timing ability reflects an investment manager's capability to anticipate market movements and adjust portfolio allocations accordingly, whereas stock selection ability refers to the capability to identify undervalued securities with superior return potential. In the context of Islamic equity mutual funds, these competencies become increasingly important because managers operate within a restricted investment universe consisting only of Sharia-compliant securities. Besides managerial capability, fund cash flow has also been recognized as an important determinant of mutual fund performance because investor subscriptions and redemptions influence portfolio liquidity, investment flexibility, and transaction costs. Consequently, both investment managers' strategic capabilities and investor capital movements are expected to shape the performance of Islamic equity mutual funds (Marissa & Yuliana, 2023; Budi et al., 2023; Latifah et al., 2026).

Nevertheless, previous empirical studies report inconsistent findings regarding these relationships. Several studies conclude that market timing ability and stock selection ability significantly improve the performance of Islamic mutual funds because competent managers are able to optimize portfolio allocation and identify profitable investment opportunities (Marissa & Yuliana, 2023; Sakti & Ryandono, 2022; Latifah et al., 2026). Conversely, other studies argue

that increasingly efficient markets and heightened post-pandemic volatility reduce the effectiveness of active portfolio management strategies, resulting in weaker or insignificant effects on fund performance (Sulaiman & Maesarach, 2025). Likewise, empirical evidence on fund cash flow remains inconclusive, with some studies reporting positive effects through increased investment capacity and economies of scale, while others suggest that excessive inflows or outflows may create liquidity constraints and portfolio adjustment costs that weaken performance (Budi et al., 2023; Latifah et al., 2026). Despite the growing body of literature, existing studies have largely examined these determinants independently and have paid limited attention to Islamic equity mutual funds during the post-pandemic recovery period (2021–2024). This gap highlights the need for a more comprehensive analysis that simultaneously examines the roles of market timing ability, stock selection ability, and fund cash flow in explaining the performance of Islamic equity mutual funds in Indonesia.

This condition underscores the importance of investment managers' competencies, particularly market timing ability and stock selection ability, in determining the performance of Islamic equity mutual funds. In addition, fund cash flow may influence fund performance by affecting portfolio liquidity, investment capacity, and the flexibility of investment managers in responding to changing market conditions. Nevertheless, previous empirical studies have produced inconsistent findings regarding the effects of these variables, with most research examining them independently or focusing primarily on conventional mutual funds. Moreover, limited empirical evidence has investigated their combined influence on Islamic equity mutual funds, particularly during the post-pandemic recovery period (2021–2024), when market volatility, investor behavior, and macroeconomic conditions have undergone substantial changes.

This limitation highlights the need for a more comprehensive analysis that simultaneously considers investment managers' strategic capabilities and investor capital movements in explaining mutual fund performance. Accordingly, this study aims to examine the effects of market timing ability, stock selection ability, and fund cash flow on the performance of Islamic equity mutual funds registered with the Indonesia Financial Services Authority (OJK) during the period 2021–2024. The novelty of this study lies in integrating these three determinants within a single empirical framework in the context of Indonesia's Islamic capital market during the post-pandemic recovery period. The findings are expected to contribute to the literature on active portfolio management and Islamic investment management by providing updated empirical evidence on the determinants of Islamic mutual fund performance. Furthermore, the results offer practical implications for investment managers in developing more effective portfolio strategies, assist investors in selecting high-performing Islamic mutual funds, and provide policymakers with empirical evidence to support the sustainable development of Indonesia's Islamic mutual fund industry.

2. Literature Review and Hypothesis Development

2.1 Active Portofolio Management Theory

Active Portfolio Management Theory explains that investment managers can generate superior portfolio performance through their ability to analyze market information and make strategic investment decisions. Unlike passive management, which aims to replicate market returns, active portfolio management seeks to outperform market benchmarks through managerial expertise. Two essential skills underlying this theory are market timing ability and stock selection

ability. Market timing ability refers to the capability of managers to anticipate market movements and adjust portfolio allocations accordingly, while stock selection ability reflects the capability to identify securities with superior return potential. According to Jensen (1968), mutual fund performance is largely influenced by the quality of managerial decisions and investment strategies. Recent studies continue to support this perspective, suggesting that managers with superior market timing and stock selection abilities are more likely to achieve better fund performance, particularly during periods of market uncertainty and volatility (Sihombing et al., 2024; Marissa & Yuliana, 2023).

2.2 Market Timing and Mutual Fund Performance

According to Active Portfolio Management Theory, investment managers can generate superior portfolio performance by actively exploiting market inefficiencies through strategic asset allocation rather than passively following market benchmarks. One of the most important managerial competencies is market timing ability, which reflects an investment manager's capability to anticipate future market movements and adjust portfolio allocations accordingly. Managers with superior market timing ability are expected to increase exposure to assets with favorable return prospects during bullish market conditions while reducing portfolio risk during market downturns. Such dynamic portfolio adjustments enable investment managers to maximize returns and mitigate investment risk, thereby enhancing mutual fund performance. In the context of Islamic equity mutual funds, this capability is particularly important because investment managers operate within a restricted universe of Sharia-compliant securities, requiring more accurate market forecasts and efficient portfolio allocation decisions.

Recent empirical evidence generally supports this theoretical argument. Marissa and Yuliana (2023) found that market timing ability positively and significantly improves the performance of Islamic mutual funds in Indonesia by enabling investment managers to respond effectively to changing market conditions. Similarly, Budi et al. (2023) demonstrated that investment managers with stronger market timing ability generated superior performance among Sharia equity mutual funds during the COVID-19 period, indicating that strategic timing decisions remain essential under volatile market conditions. Likewise, Siahaan et al. (2025) reported that market timing ability positively influences the performance of Sharia equity mutual funds because managers who accurately anticipate market trends are better able to optimize portfolio allocation. Although Latifah et al. (2026) suggested that the magnitude of the effect may vary depending on mutual fund characteristics, they emphasized that market timing remains an important element of active portfolio management because it reflects managers' ability to respond strategically to evolving market dynamics.

Based on Active Portfolio Management Theory and the empirical evidence, investment managers with superior market timing ability are expected to achieve higher mutual fund performance. Therefore, the following hypothesis is proposed:

H1: Market timing ability has a positive effect on mutual fund performance

2.3 Stock Selection Ability and Mutual Fund Performance

Active Portfolio Management Theory also emphasizes stock selection ability as a key source of superior portfolio performance. Stock selection ability refers to an investment manager's capability to identify securities with intrinsic values exceeding their market prices through comprehensive analyses of firms' financial performance, growth prospects, and risk

characteristics. By selecting undervalued securities with strong future potential, investment managers can construct portfolios capable of generating abnormal returns beyond market benchmarks. For Islamic equity mutual funds, this competency becomes increasingly important because managers are required to identify high-quality investment opportunities exclusively from Sharia-compliant companies, thereby making portfolio construction more selective and analytically demanding.

Empirical studies consistently demonstrate the importance of stock selection ability in improving Islamic mutual fund performance. Marissa and Yuliana (2023) found that stock selection ability significantly enhances the performance of Islamic mutual funds because investment managers who accurately identify undervalued Sharia-compliant stocks are able to generate superior returns. Similarly, Budi et al. (2023) concluded that stock selection ability positively affects the performance of Sharia equity mutual funds and represents one of the primary determinants of portfolio success. Furthermore, Latifah et al. (2026) reported that stock selection is the strongest managerial competency influencing Islamic mutual fund performance, suggesting that superior fundamental analysis enables managers to outperform competitors despite increasingly volatile market conditions. These findings indicate that investment managers possessing superior analytical capabilities are more likely to construct efficient portfolios and deliver higher investment performance.

Accordingly, the second hypothesis is formulated as follows:

H2: Stock selection ability has a positive effect on mutual fund performance

2.4 Cash Flow and Mutual Fund Performance

Besides managerial competence, Active Portfolio Management Theory suggests that the effectiveness of active investment strategies is also influenced by the availability of investment resources. Fund cash flow, which reflects the net inflow and outflow of investors' funds through subscriptions and redemptions, determines the amount of capital available for portfolio allocation. Positive cash inflows increase assets under management, allowing investment managers to diversify investments more effectively, exploit profitable opportunities, and benefit from economies of scale. Conversely, persistent cash outflows may reduce portfolio flexibility by forcing managers to liquidate assets prematurely, thereby limiting their ability to implement optimal investment strategies.

Empirical evidence also supports the importance of fund cash flow in determining mutual fund performance. Budi et al. (2023) found that fund cash flow positively and significantly affects the performance of Sharia equity mutual funds because larger inflows provide investment managers with greater flexibility to implement active portfolio strategies and optimize asset allocation. In addition, Latifah et al. (2026) argued that stable fund cash inflows strengthen investment managers' ability to adjust portfolios efficiently and improve long-term investment performance. These findings imply that adequate fund cash flow enhances the implementation of active portfolio management strategies by increasing investment flexibility and supporting more effective portfolio decisions.

Based on Active Portfolio Management Theory and previous empirical findings, higher fund cash flow is expected to improve the performance of Sharia equity mutual funds. Therefore, the following hypothesis is proposed:

H3: Cash flow has a positive effect on the performance of Sharia equity mutual funds

Based on the theoretical review and conceptual framework discussed in the previous sections, mutual fund performance is influenced by both managerial capabilities and fund characteristics. Market timing ability reflects the manager's capability to respond to market dynamics, stock selection ability determines the quality of assets included in the portfolio, while fund cash flow represents the scale and flexibility of fund allocation. These factors collectively shape the performance outcomes of Sharia equity mutual funds.

At the aggregate level, the interaction of these variables is expected to simultaneously influence mutual fund performance. Investment managers who are able to effectively combine market timing strategies, accurate stock selection, and efficient management of cash flows are more likely to generate optimal returns. Individually, each variable is also expected to contribute to performance. Market timing ability enables managers to adjust portfolios in response to market movements, stock selection ability enhances the quality of portfolio composition, and fund cash flow determines the manager's flexibility in executing investment strategies. Based on the above discussion and drawing on previous research, the following theoretical framework can be formulated:

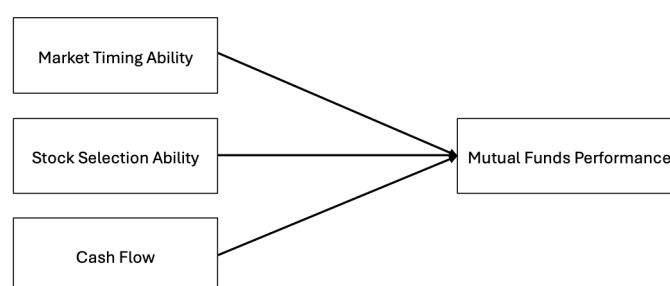


Figure 1. Research Model

3. Methodology

This study employs a quantitative research approach using both descriptive and associative research designs. The descriptive design aims to describe the characteristics and trends of the research variables, namely market timing ability, stock selection ability, fund cash flow, and the performance of Sharia equity mutual funds. Meanwhile, the associative design is used to examine the causal relationships between the independent variables and mutual fund performance. The study adopts a deductive approach, in which hypotheses are formulated based on Active Portfolio Management Theory and relevant empirical studies before being tested using statistical analysis. This approach enables objective measurement of the relationships among variables through numerical data analysis (Sugiyono, 2017).

The study utilizes panel data, which combine cross-sectional observations of Sharia equity mutual funds with time-series data covering the period from 2021 to 2024. The use of panel data allows the analysis to capture both cross-sectional differences among mutual funds and changes in their performance over time, thereby improving the robustness and efficiency of the empirical estimation. The unit of analysis consists of Sharia equity mutual funds registered with the Indonesia Financial Services Authority (OJK), while the observation period represents the post-pandemic recovery phase of the Indonesian capital market.

This research relies exclusively on secondary data obtained from publicly available sources. The primary data consist of monthly Net Asset Value (NAV) reports, prospectuses, and fund fact sheets published by investment management companies and the Indonesia Financial

Services Authority (OJK). Additional information was collected through a comprehensive review of relevant literature, including academic journal articles, books, regulatory publications, and other supporting documents related to Islamic mutual funds and portfolio management. The collected data are quantitative in nature and are organized as panel data to facilitate longitudinal analysis across multiple mutual funds.

The study employs purposive sampling to select mutual funds that satisfy predetermined criteria relevant to the research objectives. The sampling criteria include: (1) Sharia equity mutual funds registered with the Indonesia Financial Services Authority (OJK) during the 2021–2024 period; (2) funds that remained actively operating throughout the observation period; (3) funds that consistently published monthly Net Asset Value (NAV) reports and prospectuses; and (4) funds with assets under management (AUM) of at least IDR 100 billion as of December 2024. Based on these criteria, 10 Sharia equity mutual funds were selected from a total population of 69 registered funds, while the remaining funds were excluded because they did not satisfy one or more of the sampling requirements.

Panel Data Regression Analysis

The collected data were analyzed using panel data regression analysis to examine the effects of market timing ability, stock selection ability, and fund cash flow on the performance of Sharia equity mutual funds. Panel data regression was selected because the dataset combines cross-sectional observations of multiple Sharia equity mutual funds with time-series observations covering the period 2021–2024. Compared with conventional cross-sectional or time-series regression, panel data analysis provides greater variability in the data, improves the efficiency of parameter estimation, reduces multicollinearity among explanatory variables, and enables the analysis to capture both cross-sectional differences among mutual funds and changes in their performance over time.

The estimated panel data regression model was used to assess both the individual and simultaneous effects of market timing ability, stock selection ability, and fund cash flow on the performance of Sharia equity mutual funds. The estimated regression equation is presented as follows:

$$MFP = \alpha + \beta_1 MTA + \beta_2 SSA + \beta_3 FCF + \varepsilon$$

where: *MFP* reflects *Mutual Fund Performance*, *MTA* reflects *Market Timing Ability*, *SSA* reflects *Stock Selection Ability*, and *FCF* reflects *Fund Cash Flow*.

Variable Definition

The variables in this study are operationalized based on prior literature to ensure construct validity. The indicators used for each variable are presented in Table 1.

Table 1. Operationalization Variable

Variable	Indicator
Market Timing Ability (X1)	Treynor-Mazuy Model $R_D - R_F = \alpha + \beta(R_M - R_F) + \gamma(R_M - R_F)^2 + \varepsilon$ Where: R_D = Mutual fund return at period t;

Variable	Indicator
	R_F = Risk-free return at period t ; R_M = Market return at period t ; α = Intercept representing stock selection ability; β = Regression coefficient of excess market return during bearish market conditions; γ = Regression coefficient representing market timing ability; ε = Error term
Stock Selection Ability (X2)	Treynor-Mazuy Model $R_D - R_F = \alpha + \beta(R_M - R_F) + \gamma(R_M - R_F)^2 + \varepsilon$ Where: R_D = Mutual fund return at period t ; R_F = Risk-free return at period t ; R_M = Market return at period t ; α = Intercept representing stock selection ability; β = Regression coefficient of excess market return during bearish market conditions; γ = Regression coefficient representing market timing ability; ε = Error term
Fund Cash Flow (X3)	$\text{Cash Flow} = \sum_{i=1}^N \frac{TNA_{i,t} - TNA_{i,t-1}(1 + R_{i,t})}{TNA_{i,t}}$ Where: $TNA_{i,t}$ = Total Net Assets of fund i in period t ; $TNA_{i,t-1}$ = Total Net Assets in the previous period; $R_{i,t}$ = Mutual fund return in period t ; N = Observation period
Mutual Fund Performance (Y)	First calculate the mutual fund return: $R_{it} = \frac{NAB_t - NAB_{t-1}}{NAB_{t-1}}$ Where: R_{it} = Return of mutual fund i at period t ; NAB_t = Net Asset Value at period t ; NAB_{t-1} = Net Asset Value at period $t-1$. Then, mutual fund performance is measured using the Treynor Index: $Tpi = \frac{R_{pi} - R_f}{\beta_{pi}}$ Where:

Variable	Indicator
	Tpi = Treynor Index of portfolio p ;
	Rpi = Average portfolio return;
	Rf = Average risk-free rate;
	βpi = b Portfolio beta (systematic risk);
	$Rpi - Rf$ = Portfolio risk premi

Independent Variable

Market timing refers to a short-term trading strategy in which investment managers actively observe price movements and overall market conditions, then adjust portfolio allocations to capitalize on market fluctuations and maximize returns (Mufida & Dewa, 2019).

Stock selection ability is the investment manager's capability to identify and select securities that are expected to outperform the market and generate optimal returns for investors (Budi et al. 2023)

Fund cash flow represents the net amount of cash received or paid by a mutual fund during a specific period. It reflects investors' net subscriptions and redemptions and indicates the availability of funds for portfolio investment (Aim, 2010).

Dependent Variable

Mutual fund performance reflects the effectiveness of an investment manager in generating returns relative to the level of systematic risk borne by investors. Performance serves as an important indicator in evaluating the success of investment management (Alif & Bambang, 2018).

4. Results and Discussion

4.1 Descriptive Statistics Analysis

Before examining the relationships among variables using panel data regression, descriptive statistical analysis was performed to summarize the characteristics of the data. This analysis provides preliminary insights into the distribution, central tendency, and variability of the study variables, namely Market Timing Ability (MTA), Stock Selection Ability (SSA), Fund Cash Flow (FCF), and Mutual Fund Performance (MFP). The descriptive statistics are presented in Table 2, including the mean, median, maximum, minimum, standard deviation, and the total number of observations for each variable.

Table 2. Descriptive Statistics Analysis

	MTA	SSA	FCF	MFP
Mean	-1,566	-0,004	-0,105	-0,112
Median	-2,432	-0,006	0,000	-0,095
Maximum	104,941	0,034	0,521	0,508
Minimum	-24,050	-0,034	-1,604	-0,509
Std. Deviasi	19,779	0,015	0,356	0,204

Observations	40	40	40	40
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Notes: MTA indicates the Market Timing Ability, SSA indicates Stock Selection Ability, FCF indicates Fund Cash Flow, MFP indicates Mutual Fund Performance.

Based on Table 2, The results of the descriptive statistical analysis can be explained as follows market timing ability show a mean value of -1.56 and the standard deviation of 19.77, which exceeds the mean, indicates a high level of variability, suggesting that market timing ability across mutual funds is highly diverse and unstable.

Stock Selection Ability show a mean value of -0.004 and the standard deviation of 0.015, which is higher than the mean, indicates considerable variation, reflecting that stock selection ability varies across mutual funds and tends to be unstable. Fund Cash Flow show a mean value of -1.10 and the standard deviation of 0.35, which is higher than the mean, indicates variability in cash flow across mutual funds, reflecting differences in fund inflows and outflows.

4.2 Panel Data Regression Analysis

Following the descriptive statistical analysis, panel data regression was employed to test the proposed hypotheses regarding the effects of Market Timing Ability (MTA), Stock Selection Ability (SSA), and Fund Cash Flow (FCF) on the performance of Sharia equity mutual funds. Table 3 presents the estimated regression coefficients, standard errors, t-statistics, and probability values, which serve as the basis for evaluating the direction, magnitude, and statistical significance of the relationships between the independent variables and mutual fund performance.

Table 3. Panel Data Regression Analysis

Variabel	Coefficient	Std. Error	t-Statistic	Prob.
C	-0,032841	0,026669	-1,231436	0,3059
MTA	0,005607	0,000997	5,620975	0,0111
SSA	13,97358	2,173877	6,427955	0,0076
FCF	0,016798	0,076795	0,218742	0,8409

Note(s): MTA indicates the Market Timing Ability, SSA indicates Stock Selection Ability, FCF indicates Fund Cash Flow.
Sources: Eviews 13 output results (2026)

Based on Table 3, The regression results indicate that Market Timing Ability (MTA) has a positive and statistically significant effect on the performance of Sharia equity mutual funds (coefficient = 0.005607; $t = 5.620975$; $p = 0.0111 < 0.05$). This finding suggests that fund managers with better market timing skills are more capable of adjusting portfolio allocations in response to market conditions, thereby improving fund performance. Therefore, **H1 is accepted**.

Similarly, **Stock Selection Ability (SSA)** has a positive and significant effect on mutual fund performance (coefficient = 13.97358; $t = 6.427955$; $p = 0.0076 < 0.05$). This result indicates that the ability of fund managers to select undervalued or high-performing Sharia-compliant stocks contributes significantly to higher investment returns. Accordingly, **H2 is accepted**.

In contrast, **Fund Cash Flow (FCF)** has a positive coefficient (0.016798) but its effect is not statistically significant ($t = 0.218742$; $p = 0.8409 > 0.05$). This implies that changes in fund cash inflows and outflows do not significantly influence the performance of Sharia equity mutual funds during the observation period. Consequently, **H3 is rejected**.

4.3 Discussions

The Effect of Market Timing Ability on the Performance of Sharia Equity Mutual Funds

Based on the panel data regression results, market timing ability has a positive coefficient of 0.0056, indicating a positive relationship with mutual fund performance. This implies that improvements in the ability of investment managers to anticipate market movements are associated with proportional increases in the performance of Sharia equity mutual funds. Statistically, the t-value (5.621) exceeds the critical t-value (1.6883), and the probability value (0.0111) is below the significance level of 0.05. This confirms that market timing ability has a positive and significant effect on mutual fund performance.

From a theoretical perspective, this finding aligns with the Treynor–Mazuy model, where a positive coefficient indicates a convex characteristic line, suggesting that investment managers actively adjust portfolio risk (beta) in response to market fluctuations. This adaptive strategy enables managers to capitalize on favorable market conditions while mitigating downside risk.

In practice, market timing ability enhances the performance of Sharia equity mutual funds because investment managers continuously evaluate macroeconomic conditions, market trends, and sectoral prospects to determine the optimal timing for increasing or reducing equity exposure. During favorable market conditions, managers can allocate a greater proportion of assets to Sharia-compliant stocks with strong growth potential, thereby maximizing capital gains. Conversely, when market uncertainty increases due to economic slowdown, monetary policy changes, or heightened volatility, managers can adopt more defensive portfolio strategies by reallocating assets to relatively less volatile Sharia securities or maintaining higher cash positions within regulatory limits. Such timely portfolio adjustments enable managers to optimize returns while minimizing potential losses, ultimately improving the overall performance of Sharia equity mutual funds.

This finding is consistent with the studies conducted by Mufida Tullaili and Dewa Putra Khrisna (2019), as well as Santika Dyah Perwitasari and Deannes Isyanuwardhana (2019), which concluded that market timing ability has a positive and significant effect on mutual fund performance.

The Effect of Stock Selection Ability on the Performance of Sharia Equity Mutual Funds

Based on the panel data regression results, stock selection ability has a positive coefficient of 13.9735, indicating a strong positive relationship with mutual fund performance. The magnitude of this coefficient suggests that investment managers possess substantial skill in conducting micro-level (fundamental) analysis of Sharia-compliant stocks. Specifically, managers are able to identify undervalued securities—those priced below their intrinsic value—allowing mutual funds to generate significant gains as prices adjust toward their fair value.

From a statistical perspective, the t-value (6.428) exceeds the critical t-value (1.6883), and the probability value (0.0076) is below the significance level of 0.05. This confirms that stock selection ability has a positive and significant effect on mutual fund performance. Theoretically, this finding is consistent with the Treynor–Mazuy framework, which distinguishes between managerial skill and luck. The significance of the coefficient reflects the ability of investment managers to extract firm-specific information that is not fully incorporated into market prices.

This supports the view that active portfolio management can outperform benchmark indices through accurate sector allocation and stock selection.

In practice, stock selection ability improves the performance of Sharia equity mutual funds because investment managers conduct comprehensive analyses of individual companies by evaluating their financial performance, earnings growth, business prospects, corporate governance, and compliance with Sharia screening criteria. Managers who successfully identify fundamentally strong companies with sustainable growth potential can construct portfolios that generate higher risk-adjusted returns over time. By selecting stocks with superior long-term value while avoiding overvalued or financially weak companies, investment managers are able to enhance portfolio performance even under varying market conditions. Consequently, superior stock selection becomes one of the primary sources of excess returns (alpha) in actively managed Sharia equity mutual funds.

This finding is consistent with the studies conducted by Muhammad Pambudi Wicaksono and R. Djoko Sampurno (2017), as well as Meidiana Rizki Adelia and Muhammad Nafik Hadi Ryandono (2020), which concluded that stock selection ability has a positive and significant effect on mutual fund performance.

The Effect of Fund Cash Flow on the Performance of Sharia Equity Mutual Funds

Based on the panel data regression results, fund cash flow has a positive coefficient of 0.0168, indicating a positive directional relationship with mutual fund performance. This suggests that increases in cash inflows tend to be associated with improvements in performance. However, the statistical results show that the t-value (0.219) is lower than the critical t-value (1.6883), and the probability value (0.8409) exceeds the significance level of 0.05. This indicates that fund cash flow does not have a statistically significant effect on the performance of Sharia equity mutual funds.

These findings imply that although cash inflows may provide additional resources for investment, they do not necessarily translate into improved performance. In practice, large or volatile fund flows can create challenges for investment managers in efficiently allocating capital, particularly under dynamic market conditions. As a result, the effectiveness of fund cash flow in enhancing performance is highly dependent on managerial capability and timing in portfolio allocation. It means that increases in investor subscriptions or decreases in redemptions do not automatically improve the performance of Sharia equity mutual funds. Although larger cash inflows provide investment managers with additional capital, these funds must first be allocated into Sharia-compliant securities that meet both financial and Sharia screening criteria. Investment opportunities that satisfy these requirements may not always be readily available, particularly during periods of market uncertainty or high asset valuations. Moreover, sudden inflows can temporarily increase cash holdings before they are invested, while substantial redemptions may force managers to liquidate portfolio assets at unfavorable prices.

Consequently, the volume of fund cash flow alone is insufficient to generate superior performance unless it is accompanied by effective portfolio allocation and investment decisions. This finding is consistent with the study conducted by Galuh Sukmaningrum and Mohammad Khaliq Mahfud (2016), which found that fund cash flow does not have a significant effect on mutual fund performance.

5. Conclusion

This study aimed to examine the effect of market timing ability, stock selection ability, and fund cash flow on the performance of Islamic equity mutual funds registered with the Indonesian Financial Services Authority (OJK) during the 2021–2024 period. The findings indicate that market timing ability and stock selection ability have a positive and significant effect on Islamic equity mutual fund performance, suggesting that managerial skills in analyzing market conditions and selecting high-quality stocks play an important role in improving portfolio performance. In contrast, fund cash flow does not have a significant effect on mutual fund performance, indicating that fluctuations in investor cash flows do not directly influence portfolio returns during the same period.

Theoretically, this study supports portfolio management and active portfolio management theories, which emphasize the importance of managerial expertise in generating optimal returns through market timing and stock selection strategies. In terms of contribution, this research enriches the existing literature on Islamic finance by providing empirical evidence on how fund managers navigate post-pandemic market dynamics. Practically, it offers valuable insights for institutional and retail investors in choosing sharia mutual funds based on manager capabilities rather than just fund size or cash flows. Furthermore, it serves as a reference for regulatory bodies and fund houses to enhance standard training programs regarding active portfolio strategic choices. In addition, the findings suggest that fund cash flow may not always contribute directly to performance due to factors such as market volatility, time lag in portfolio adjustment, and changing investor behavior during the post-pandemic recovery period.

However, this study has several limitations. First, the study only focuses on Islamic equity mutual funds registered with OJK, limiting the generalizability of the findings to other mutual fund categories. Second, the observation period is relatively short, covering only four years. Third, the study only examines three independent variables, while mutual fund performance may also be influenced by other factors such as macroeconomic conditions, fund size, expense ratio, and market risk. Therefore, future research is recommended to include additional variables, broader samples, and longer observation periods to obtain more comprehensive results.

Declaration of Conflicting Interests

The authors declare that there is no conflict of interest regarding the publication of this paper.

Data Availability Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request. Researchers who are interested in accessing the data may contact the author via email at 193403018@student.unsil.ac.id.

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