Home Bias and Performance and Risk in Islamic Mutual Funds

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Abstract

This paper examines the effects of home bias on Islamic mutual fund (IMF) performance and risk measures, testing the Information Advantage versus Diversification Cost trade-off in 691 IMFs. Results for the full sample reveal home bias is a risk-shifting strategy: managers reduce systematic risk but significantly increase idiosyncratic risk. While this generates skill, the benefits fail to translate into consistent net risk-adjusted returns. Critically, subsample analysis finds that home bias in mature IMPS markets (Indonesia, Malaysia, Pakistan, Saudi Arabia) is not beneficial; it is associated with significant underperformance and a higher systematic risk profile. Furthermore, the risks are non-linear: above-median home bias adds significant volatility with no additional reward. The findings demonstrate home bias is a sub-optimal strategy, especially in core Islamic markets.

Keywords: Home Bias; Islamic Mutual Funds; Portfolio Diversification; Risk and Performance; Market Integration

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Introduction

Home bias is the tendency of investors and fund managers to overweight domestic assets relative to optimal diversification (French & Poterba, 1991; Tesar & Werner, 1995). It remains one of the most persistent puzzles in international finance (Gaar et al., 2022). Despite decades of research documenting its prevalence and increasing globalization of capital markets, domestic concentration persists across countries and asset classes (Chan et al., 2009; Ke et al., 2010). Traditional portfolio theory suggests investors should hold the global market portfolio to maximize risk-adjusted returns through diversification. Yet empirical evidence consistently shows substantial deviations from this prescription, with investors holding disproportionate shares of domestic securities (Coval & Moskowitz, 1999; Pool et al., 2012) even when diversification benefits are apparent (Covrig et al., 2007).

Islamic mutual funds (IMFs) represent a particularly compelling context for examining home bias. These investment vehicles must comply with Shariah principles that prohibit interest-bearing securities, leverage, and investments in proscribed sectors such as alcohol, gambling, and pork production (Nainggolan et al., 2013). These religious constraints fundamentally alter the investment opportunity set, potentially amplifying or mitigating traditional home bias patterns. On one hand, Shariah screens reduce the universe of permissible securities, particularly in developed Western markets where fewer companies meet Islamic criteria. This constraint may push IMF managers toward markets with deeper Islamic securities pools, often their domestic markets (Chen & Nainggolan, 2018; Hoepner et al., 2011).

The consequences of home bias in IMFs are theoretically ambiguous, a debate that hinges on whether informational advantages outweigh diversification costs (Hoepner et al., 2011; Zouaoui, 2019). Proponents of local information advantage theory argue that domestic concentration allows managers to exploit superior knowledge of local firms, regulations, and business practices. If these informational advantages are substantial, home-biased IMFs should generate positive risk-adjusted returns (Chen & Nainggolan, 2018; Omri et al., 2019). Conversely, modern portfolio theory emphasizes diversification benefits. Concentrated domestic exposure increases idiosyncratic risk... If diversification benefits dominate informational advantages, home-biased IMFs should underperform (Nainggolan et al., 2013).

This study provides the first comprehensive examination of how home bias affects IMF performance, risk characteristics, and market alignment. Analyzing a dataset of 691 active equity Islamic mutual funds from 23 countries, this study addresses three key research questions: First, how does home bias influence the full spectrum of IMF performance? I move beyond a single metric to test its impact on pure performance (Performance), total risk-adjusted performance (i.e., Sharpe Ratio, Return/Risk Ratio); and systematic risk-adjusted performance and manager skill (i.e., Alpha, Treynor Ratio, Information Ratio). Second, how does home bias shape the fund's complete risk profile? This analysis examines its effect on: total volatility and downside risk (Annualised Standard Deviation, Max Drawdown); systematic risk and market co-movement (Beta, Correlation, R-Squared); and active risk relative to a benchmark (Tracking Error). Third, does the home bias-performance relationship differ for IMFs domiciled in markets with deep Islamic finance infrastructure (i.e., IMPS countries: Indonesia, Malaysia, Pakistan, Saudi Arabia) compared to those domiciled elsewhere?

Literature Review

Islamic mutual funds (IMFs) are shaped by Shariah constraints (e.g., no interest, proscribed sectors) that alter the investable universe (Hayat & Kraeussl, 2011). These screens, and governance factors like local Shariah boards (Billah, 2019), can interact with home bias by narrowing the geographic scope of potential investments. IMF performance is state-dependent, often showing crisis-resilience (Al-Khazali & Mirzaei, 2017; Ho et al., 2014), such as providing safe-haven benefits during COVID-19 (Arif et al., 2022). This suggests their constrained universe is not an inherent disadvantage.

Home bias (French & Poterba, 1991; Tesar & Werner, 1995) is explained by traditional information advantages (Coval & Moskowitz, 1999), behavioral factors like familiarity (Huberman, 2001), and institutional barriers (Cooper & Kaplanis, 1994). While moderate bias can enhance performance, excessive concentration destroys value (Van Nieuwerburgh & Veldkamp, 2009; Ong, 2023). The home bias-performance link is contextual. While local information advantages can lead to outperformance (Coval & Moskowitz, 1999), excessive concentration sacrifices diversification, a cost that is particularly high in emerging markets (Bekaert & Harvey, 1995). In IMFs, systematic evidence on whether home bias helps or hinds IMF performance remains limited.

Fund characteristics systematically affect performance and must be controlled. Fund age captures organizational learning and survival effects, with older funds benefiting from maturity but potentially suffering strategic inertia (Khorana & Servaes, 1999). Fund size exhibits trade-offs between economies of scale and liquidity constraints that erode performance (Chen et al., 2004). Expense ratios directly reduce net returns and predict underperformance (Carhart, 1997). Distribution policies captured by dividend payments affect reported returns and attract different investor clienteles (Elton et al., 1996). Therefore, to isolate the true impact of home bias, any empirical analysis must control for these confounding fund characteristics (Age, Size, Expense Ratio, Distribution) to avoid omitted variable bias.

Research Gap and Questions

Despite extensive research on home bias in conventional funds and growing literature on Islamic fund performance, systematic evidence on whether home bias enhances or hinders IMF performance across dimensions and horizons remains absent. While literature documents home bias exists in Islamic funds due to Shariah constraints and social norms, the evidence on whether this translates into superior risk-adjusted returns through local information advantages or inferior performance through inadequate diversification, is lacking.

This gap is critical given IMFs' structural differences. Unlike conventional funds, binding Shariah screens fundamentally alter the risk-return trade-off of diversification. Furthermore, Islamic finance infrastructure concentration in Indonesia, Malaysia, Pakistan, and Saudi Arabia (IMPS countries) creates ambiguity about whether patterns reflect genuine home expertise or merely regional clustering.

I pose three research questions:

RQ1: How does home bias influence the performance and risk-adjusted performance of Islamic mutual funds i.e. does it impact pure performance (i.e., Performance); does it impact total risk-adjusted performance (i.e., Sharpe Ratio, Return/Risk Ratio); does it impact

systematic risk-adjusted performance and manager skill (i.e., Alpha, Treynor Ratio, Information Ratio)?

RQ2: How does home bias shape the risk profile of Islamic mutual funds i.e. does it affect total volatility and downside risk (i.e., Annualised Standard Deviation, Max Drawdown); does it alter systematic risk and market co-movement (i.e., Beta, Correlation, R-Squared); does it impact active risk relative to a benchmark (i.e., Tracking Error)?

RQ3: Does the home bias-performance relationship differ for IMFs domiciled in markets with deep Islamic finance infrastructure (i.e., IMPS countries) compared to those domiciled elsewhere?

Based on competing theories and prior evidence, I develop testable hypotheses:

H1: Higher levels of home bias are positively associated with manager skill and superior risk-adjusted performance.

H2: Higher levels of home bias are positively associated with increased portfolio risk and volatility, reflecting costly domestic concentration.

H3: H1 will be stronger for IMFs in IMPS countries. Their home market provides a richer, more diversified set of Shariah-compliant assets and a more robust local information environment, making home bias less costly and more profitable compared to IMFs in countries with a thin Islamic finance infrastructure.

Research Methodology

This study uses cross-sectional OLS regression to link home bias and fund performance over 1, 3, 5, and 10-year horizons, applying Heckman's (1979) two-step correction for survivorship bias. The following description explains data and sample used, variables and econometric identification.

Data and Sample

I analyze 691 active equity Islamic mutual funds (as of Oct. 2024) from Morningstar Direct, using Lipper's global equity fund taxonomy. The sample requires explicit Shariah-compliance, >70% equity, active management, and >12 months history. Monthly return data spans Oct. 2014–Oct. 2024. The 23-country/jurisdiction[1] sample is 60% concentrated in IMPS countries (Indonesia 11%, Malaysia 30%, Pakistan 4%, Saudi Arabia 15%), the top-scoring markets on the Islamic Finance Country Index. This concentration motivates robustness tests to distinguish home bias from regional clustering effects. Benchmark-relative metrics (Alpha, Beta, Tracking Error) are calculated against each fund's Lipper-defined prospectus benchmark (e.g., MSCI EM Islamic, MSCI World Islamic) for fair comparison. The 3-month US T-Bill serves as the risk-free rate. Missing data (8%) are handled via Multiple Imputation (MICE, 5 iterations) (van Buuren & Groothuis-Oudshoorn, 2011). All metrics are in USD and follow Lipper's methodology.

[1] See appendix for further detail by country / jurisdiction

Variable Definitions

I use two primary independent variables for home bias: Home, a binary indicator (1 = explicit domestic mandate, 0 = otherwise) from prospectus analysis, and Home Alloc, the percentage of assets (0-100%) in the domicile country / jurisdiction, capturing allocation intensity.

The 12 dependent variables, each measured over 1, 3, 5, and 10-year horizons (48 outcomes total), are grouped to directly address the research questions:

RQ1 (Performance) is tested using: (a) pure performance (Performance); (b) total risk-adjusted metrics (Sharpe Ratio, Return/Risk Ratio); and (c) manager skill metrics (Alpha, Treynor Ratio, Information Ratio).

RQ2 (Risk) is tested using: (a) total/downside risk (Annualised Standard Deviation, Max Drawdown); (b) market risk (Beta, Correlation, R-Squared); and (c) active risk (Tracking Error).

An identification challenge arises as 60.7% of funds are domiciled in IMPS countries (Indonesia, Malaysia, Pakistan, Saudi Arabia), the largest Islamic equity markets. This creates a moderate mechanical correlation between Home Alloc and investment in these high-quality markets, confounding home bias with rational regional concentration. To address this and isolate the pure home bias effect (for H1/H2), all regressions include "IMPS Alloc" (percentage in all four IMPS countries) as a control. The Home Alloc coefficient thus represents the impact of domestic investment, holding constant the fund's total exposure to the broader IMPS region.

Econometric Model

To correct for survivorship bias, this study employs Heckman's (1979) two-step procedure. First, a probit model estimates the probability of a fund surviving to October 2024, using the full sample of all funds that existed during the sample window (including liquidated or merged funds). The resulting Inverse Mills Ratio (IMR) is then included as an additional regressor in the second-stage OLS models to control for this self-selection bias. The baseline second-stage OLS specifications, run cross-sectionally for each of the 48 Outcome variables (12 measures x 4 horizons), are:

$$Outcome_i = \beta_0 + \beta_1 Home_i + \beta_2 FundAge_i + \beta_3 LNSize_i + \beta_4 ExpRatio_i + \beta_5 DividendPaid_i + \beta_6 IMPS\ Alloc_i + \epsilon_i \quad (1)$$

$$Outcome_i = \beta_0 + \beta_1 Home\ Alloc_i + \beta_2 FundAge_i + \beta_3 LNSize_i + \beta_4 ExpRatio_i + \beta_5 DividendPaid_i + \beta_6 IMPS\ Alloc_i + \epsilon_i \quad (2)$$

where i indexes each fund. Standard errors are clustered by fund management company to account for unobserved correlations within the same firm (Petersen, 2009).

I conduct two subsample analyses. First, to test for non-linear effects, models (1) and (2) are run on samples split by the median Home Alloc, and I analyze the statistical differences between the coefficients for the above- and below-median groups. Second, to test H3 and answer RQ3, I split the sample into IMPS-domiciled funds (n=482) and non-IMPS domiciles (n=264). Models (1) and (2) are run separately on each group and present the coefficient differences and their significance levels, allowing for a direct statistical test of whether the home bias-performance relationship is contingent on the local market's infrastructure.

Research Results

Table 1 presents the descriptive statistics for the full sample of 691 funds, summarizing the home bias measures, control variables, and various performance and risk metrics evaluated over 1, 3, 5, and 10-year horizons. Notably, the declining sample size (N) for longer horizons, from 691 at 1-year to 272 at 10-years, highlights the presence of survivorship bias, which is formally addressed in the econometric model via the Heckman (1979) correction.

Panel A details the primary variables of interest. Home is a binary dummy variable, indicating that 41.2% of the funds in the sample are classified with a "Home" bias. The Home Alloc variable, a continuous measure of domestic allocation, has a mean of 32.47% and a large standard deviation (21.84), indicating significant heterogeneity in domestic allocation across the sample, which ranges from 0% to 100%.

Panel B outlines the fund-level control variables. The average FundAge is approximately 10 years, and the ExpRatio (Expense Ratio) has a mean of 1.985%. IMPS Alloc, representing allocation to the four key Islamic finance countries (Indonesia, Malaysia, Pakistan, and Saudi Arabia), averages 27.71% but also exhibits a very wide dispersion (SD = 39.65). This large, heterogeneous allocation to the IMPS region, which mirrors the Home Alloc statistics, provides clear statistical justification for its inclusion as a key control variable to solve the identification challenge raised in the methodology.

Based on the data in Table 1 Panel C, the distribution of pure performance reveals significant dispersion and extreme outliers, particularly in the short term. For the 1-year horizon, while the mean is 20.45%, the returns range drastically from a minimum of -90.80% to a maximum of 139.45%, with a standard deviation of 20.42% that underscores this volatility. The interquartile range shows that the central 50% of funds sit between 8.54% and 30.60%. Over the longer 10-year horizon, the distribution tightens but remains varied; the standard deviation is 5.23%, with returns ranging from a significant loss of -30.89% to a gain of 15.66%. The median 10-year return of 2.34% is very close to the mean, suggesting a more symmetric distribution over the long run compared to the short-term skew.

Manager skill metrics, such as Alpha and the Information Ratio, exhibit a distribution heavily centered around or below zero, though tails exist on both sides. For 1-year Alpha, the values range from a deep underperformance of -10.97 to a significant outperformance of 6.37, with a standard deviation of 1.31. However, the quartiles indicate that 75% of funds (Q3) achieve an Alpha of only 0.56 or lower, confirming that positive skill is rare. Similarly, the 10-year Information Ratio distribution is tight but negative, ranging from -0.39 to 0.45 with a median of -0.048. The standard deviation of 0.15 at this horizon suggests that while most managers hover near the benchmark, very few consistently demonstrate the distinct value-add required to break away from the pack.

Risk profiles display a wide spread in absolute volatility and downside exposure, despite the defensive average. The Annualised Standard Deviation over 10 years ranges from a low of 8.68% to a high of 40.63%, with a standard deviation of 4.47%, indicating that while the median fund sits at 16.72%, there is a subset of highly volatile funds. Downside risk is particularly pronounced; the 10-year Max Drawdown distribution reveals catastrophic outliers, with the worst fund losing 97.86% of its value. Even the “safest” fund in the sample experienced a drawdown of -17.31%, and the bottom quartile (Q1) suffered losses exceeding 47%. Systematic risk (Beta) over 10 years is relatively concentrated, with a standard deviation of just 0.17 and an interquartile range of 0.73 to 0.92, though outliers exist with Betas as low as 0.16.

Table 1: Descriptive Statistics

Variables	N	Mean	SD	Min	Q1	Median	Q3	Max
A. Home Bias Measures								
Home	691	0.4120	0.4920	0	0	0	1	1
Home Alloc	691	32.4660	21.8350	0	0	24.7900	81.8900	100
B. Control Variables								
FundAge	691	10.1040	7.6010	1	3	8	14	58
LNSize (Million)	691	2.7630	2.1570	-1.5800	1.4480	3.0650	4.1830	8.6510
ExpRatio	691	1.9850	1.1590	0.4100	1.3220	1.7850	2.2800	10.0200
DividendPaid	691	0.4850	0.5000	0	0	0	1	1
IMPS Alloc	691	27.7080	39.6530	0	0	25.3900	68.0100	100
C. Performance and Risk Metrics								
Alpha (1-Year)	691	-0.0900	1.3050	-10.9740	-0.7200	-0.1570	0.5560	6.3690
Alpha (3-Year)	576	-0.2270	0.7240	-4.1340	-0.5770	-0.2890	0.0390	2.0900
Alpha (5-Year)	475	-0.1040	0.7360	-6.9380	-0.3860	-0.1030	0.1940	1.8060
Alpha (10-Year)	272	-0.0810	0.3380	-2.3100	-0.2770	-0.0970	0.1160	0.8060
Annualised Standard Deviation (1-Year)	691	16.0120	9.3160	1.0630	11.7360	13.8970	18.4840	118.2470
Annualised Standard Deviation (3-Year)	576	17.8710	6.1050	5.7860	14.8000	16.5970	19.2230	69.4590
Annualised Standard Deviation (5-Year)	475	19.5060	5.7140	6.6910	15.9170	18.1060	21.2990	58.1970
Annualised Standard Deviation (10-Year)	272	17.7520	4.4670	8.6760	14.9410	16.7230	19.4740	40.6290
Beta (1-Year)	691	0.6750	0.5180	-2.5510	0.5310	0.8230	0.9900	1.8410
Beta (3-Year)	576	0.7700	0.2660	-0.7110	0.6330	0.8090	0.9760	1.4320
Beta (5-Year)	475	0.7890	0.2130	-0.2990	0.7090	0.8120	0.9400	1.2760
Beta (10-Year)	272	0.8010	0.1670	0.1610	0.7340	0.8270	0.9200	1.0800
Correlation (1-Year)	691	0.6740	0.3790	-0.6790	0.5780	0.8470	0.9270	0.9890
Correlation (3-Year)	576	0.7800	0.2070	-0.1730	0.7100	0.8440	0.9280	0.9870
Correlation (5-Year)	475	0.8000	0.1880	-0.0920	0.7520	0.8690	0.9230	0.9810
Correlation (10-Year)	272	0.8090	0.1440	0.0650	0.7480	0.8590	0.9160	0.9800

Table 1: Descriptive Statistics (Cont.)

Variables	N	Mean	SD	Min	Q1	Median	Q3	Max
Information Ratio (1-Year)	691	-0.1750	0.6740	-14.8550	-0.3740	-0.1720	0.0520	1.6780
Information Ratio (3-Year)	576	-0.1030	0.2780	-1.7990	-0.2560	-0.1520	-0.0150	0.8880
Information Ratio (5-Year)	475	-0.0480	0.2080	-0.5440	-0.1920	-0.0690	0.0500	0.7880
Information Ratio (10-Year)	272	-0.0480	0.1480	-0.3850	-0.1500	-0.0480	0.0400	0.4530
Max Drawdown (1-Year)	691	-9.0360	9.2280	-93.8990	-11.1870	-5.7400	-3.6960	-0.7360
Max Drawdown (3-Year)	576	-28.6510	10.9570	-94.8420	-33.8500	-27.3930	-21.5060	-4.2740
Max Drawdown (5-Year)	475	-32.6960	13.1270	-98.2360	-38.2500	-29.6000	-23.6750	-8.4940
Max Drawdown (10-Year)	272	-41.0190	13.8620	-97.8580	-47.3130	-39.0700	-31.5150	-17.3080
Performance (1-Year)	691	20.4500	20.4170	-90.7990	8.5370	21.7430	30.6010	139.4530
Performance (3-Year)	576	2.2790	9.2760	-60.5780	-2.3330	2.3700	6.7060	33.6890
Performance (5-Year)	475	5.8330	9.5930	-54.8470	0.8870	5.9490	11.1530	32.7150
Performance (10-Year)	272	2.3740	5.2320	-30.8890	-0.8350	2.3440	5.3590	15.6560
R-Squared (1-Year)	691	0.5990	0.3210	0	0.3380	0.7200	0.8600	0.9780
R-Squared (3-Year)	576	0.6500	0.2560	0	0.5040	0.7130	0.8620	0.9730
R-Squared (5-Year)	475	0.6760	0.2310	0	0.5660	0.7560	0.8520	0.9630
R-Squared (10-Year)	272	0.6760	0.2030	0.0040	0.5600	0.7380	0.8390	0.9610
Return/Risk Ratio (1-Year)	691	0.3910	0.3450	-0.7400	0.1860	0.4430	0.6280	1.5000
Return/Risk Ratio (3-Year)	576	0.0620	0.1480	-0.6310	-0.0100	0.0670	0.1320	0.6870
Return/Risk Ratio (5-Year)	475	0.1220	0.1280	-0.3520	0.0450	0.1200	0.1910	0.5440
Return/Risk Ratio (10-Year)	272	0.0710	0.0780	-0.1360	0.0170	0.0650	0.1180	0.2980
Sharpe Ratio (1-Year)	691	-0.0710	2.4570	-34.4560	0.0160	0.2040	0.3720	0.9330
Sharpe Ratio (3-Year)	576	-0.0420	0.2790	-3.8620	-0.1060	-0.0100	0.0740	0.5390
Sharpe Ratio (5-Year)	475	0.0570	0.1330	-0.3990	-0.0230	0.0660	0.1350	0.4490
Sharpe Ratio (10-Year)	272	0.0180	0.0850	-0.2310	-0.0260	0.0200	0.0710	0.2780

Table 1: Descriptive Statistics (Cont.)

Variables	N	Mean	SD	Min	Q1	Median	Q3	Max
Tracking Error (1-Year)	691	2.9250	3.2830	0.0290	1.7190	2.3890	3.2630	68.4210
Tracking Error (3-Year)	576	2.8320	2.2130	0.1650	1.8240	2.4590	3.1500	39.7390
Tracking Error (5-Year)	475	3.2020	2.4700	1.0770	1.9890	2.6450	3.4620	31.0850
Tracking Error (10-Year)	272	2.7190	1.6880	1.0330	1.8510	2.3290	3.0400	22.2690
Treynor Ratio (1-Year)	691	0.4840	125.1660	-16.8260	-0.3490	0.8620	1.8140	19.4930
Treynor Ratio (3-Year)	576	-1.3600	21.2310	-4.4270	-0.5350	-0.0190	0.4480	4.3110
Treynor Ratio (5-Year)	475	0.0540	7.0390	-1.1960	-0.0270	0.4080	0.8830	3.2730
Treynor Ratio (10-Year)	272	0.0370	0.9740	-1.0160	-0.1790	0.1000	0.3720	1.1320

Table 2: Pearson Correlation Matrix

Variables	Home Alloc	IMPS Alloc	Fund Age	LNSize	ExpRatio
Home Alloc	1	0.5680	0.3310	-0.2110	0.0870
IMPS Alloc	0.5680	1	0.3230	-0.2670	0.1630
Fund Age	0.3310	0.3230	1	0.1480	-0.0500
LNSize	-0.2110	-0.2670	0.1480	1	-0.4130
ExpRatio	0.0870	0.1630	-0.0500	-0.4130	1

Active risk and risk-adjusted return distributions highlight the heterogeneity in fund management styles. Tracking Error over 10 years shows a minimum of 1.03% while the maximum of 22.27% identifies highly active managers taking large bets. The standard deviation of 1.69% for this metric points to distinct clusters of active versus passive-like management. Finally, the Sharpe Ratio distribution over 10 years remains compressed and generally poor; it ranges from -0.23 to 0.28 with a standard deviation of 0.085. The upper quartile (Q3) is only 0.07, reinforcing that even the better-performing funds in the distribution struggle to provide substantial risk-adjusted compensation to investors.

Table 2 presents the Pearson correlations to diagnose multicollinearity. Home Alloc and IMPS Alloc show a moderate-to-strong positive correlation (r = 0.568). This confirms the significant overlap between home bias and regional IMPS concentration, validating the inclusion of IMPS Alloc as a control variable to isolate the pure home bias effect. Other correlations, such as LNSize with ExpRatio (-0.413) and Home Alloc (-0.211), are weak to moderate and well within acceptable limits. A full Variance Inflation Factor (VIF) test confirms that all VIFs are below the critical threshold, indicating multicollinearity does not threaten the stability of the regression models.

Table 3 presents the primary regression results for the full sample, allowing for a direct test of the Information Advantage (H1) and Diversification Cost (H2) hypotheses. Full table with covariates can be found in the appendix. The findings reveal a clear and significant trade-off, with strong support for H2 and more nuanced support for H1. First, the results provide strong, consistent support for H2 (Diversification Cost). Answering RQ2 (Risk Profile), both Home and Home Alloc are associated with significantly higher idiosyncratic risk. This is evidenced by the positive and significant coefficients on Annualised Standard Deviation (5 and 10-year horizons) and the negative, significant coefficients on Max Drawdown (3, 5, and 10-year), indicating deeper portfolio losses. The mechanism for this risk profile is clear i.e. home bias is strongly and negatively related to all benchmark co-movement measures (Beta, Correlation, and R-Squared) while being positively and significantly related to Tracking Error across all horizons. This confirms that home-biased funds systematically reduce systematic risk in favor of taking on more active, non-market risk.

Second, the evidence for H1 (Information Advantage) is partial and nuanced. Answering RQ1 (Performance), I find significant support for the manager skill component of H1. Both Home and Home Alloc are positively and significantly linked to the Information Ratio across most horizons and to Alpha at the 1 and 10-year horizons. This suggests that managers are successfully using home bias to generate benchmark-adjusted excess returns. However, the net benefit to the investor is ambiguous. When evaluating total risk-adjusted returns, the Sharpe Ratio is only positive and significant at the 10-year horizon for the Home measure. The Treynor Ratio is never statistically significant.

In summary, the full sample results confirm a clear trade-off. H2 is fully supported i.e. home bias is a strategy that increases idiosyncratic risk and drawdown exposure. H1 is partially supported i.e. this active risk does appear to generate manager alpha, but this skill does not consistently translate into superior total risk-adjusted returns for the investor, except over the longest (10-year) investment horizon.

Table 3: The Impact of Home Bias on Fund Performance and Risk

Outcome	Home 1 Year	Home 3 Year	Home 5 Year	Home 10 Year	Home Alloc 1 Year	Home Alloc 3 Year	Home Alloc 5 Year	Home Alloc 10 Year
Alpha	0.2807	-0.0471	0.0600	0.1353**	0.0035*	0.0005	0.0011	0.0022***
	(0.1780)	(0.0880)	(0.0869)	(0.0526)	(0.0021)	(0.0014)	(0.0015)	(0.0006)
Annualised Standard Deviation	1.3473	1.1089	4.6067***	3.1311***	0.0134	0.0090	0.0440***	0.0233*
	(1.6148)	(0.9108)	(0.8566)	(0.8872)	(0.0173)	(0.0108)	(0.0120)	(0.0119)
Beta	-0.3728***	-0.2005***	-0.1077***	-0.1033***	-0.0022**	-0.0017***	-0.0013***	-0.0010**
	(0.0752)	(0.0353)	(0.0309)	(0.0309)	(0.0010)	(0.0005)	(0.0004)	(0.0004)
Correlation	-0.2922***	-0.1655***	-0.1130***	-0.0883***	-0.0017**	-0.0016***	-0.0012***	-0.0008*
	(0.0606)	(0.0242)	(0.0240)	(0.0297)	(0.0008)	(0.0004)	(0.0004)	(0.0005)
Information Ratio	0.1782**	0.0365	0.1133***	0.1058***	0.0013*	0.0008*	0.0011***	0.0010***
	(0.0694)	(0.0323)	(0.0240)	(0.0166)	(0.0007)	(0.0004)	(0.0003)	(0.0003)
Max Drawdown	-1.9717	-4.0416**	-8.0318***	-7.0412***	-0.0225	-0.0270	-0.0637**	-0.0173
	(1.5140)	(1.5717)	(1.7730)	(2.6153)	(0.0186)	(0.0244)	(0.0260)	(0.0373)
Performance	3.9115	-1.9420	-0.9959	-1.8615*	0.0593*	0.0061	0.0085	0.0178
	(2.5726)	(1.2701)	(1.2853)	(1.0560)	(0.0355)	(0.0174)	(0.0216)	(0.0145)
R-Squared	-0.2341***	-0.2109***	-0.1440***	-0.1287***	-0.0016**	-0.0020***	-0.0015***	-0.0012*
	(0.0452)	(0.0293)	(0.0291)	(0.0390)	(0.0007)	(0.0005)	(0.0005)	(0.0007)
Return/Risk Ratio	0.0997*	-0.0200	-0.0141	-0.0287*	0.0010	0.0002	0.0002	0.0003
	(0.0602)	(0.0206)	(0.0180)	(0.0160)	(0.0007)	(0.0003)	(0.0003)	(0.0002)
Sharpe Ratio	-0.1878	-0.0487	0.0215	0.0384***	-0.0001	0.0002	0.0001	0.0001
	(0.1912)	(0.0338)	(0.0176)	(0.0146)	(0.0017)	(0.0004)	(0.0003)	(0.0002)
Tracking Error	1.3884***	1.0471***	1.5085***	0.8783**	0.0088**	0.0086**	0.0140***	0.0054
	(0.5120)	(0.3399)	(0.3189)	(0.3432)	(0.0040)	(0.0035)	(0.0045)	(0.0037)
Treynor Ratio	-9.9768	-4.5320	-0.5725	-0.3404	-0.0142	-0.0725	0.0004	0.0023
	(13.1220)	(3.6075)	(0.6766)	(0.2272)	(0.0527)	(0.0809)	(0.0089)	(0.0015)

Note: Numbers in parentheses represent standard errors, clustered by fund management company. Significance levels are denoted by asterisks: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. All models include the IMR adjustment.

Table 4: Home bias coefficient differences between funds with above-median versus below-median home allocation percentages

Outcome	1-Year		3-Year		5-Year		10-Year	
	Home	Home Alloc	Home	Home Alloc	Home	Home Alloc	Home	Home Alloc
Alpha	0.0200	0.0231	0.0470	0.0172	0.2140	0.0038	-0.0490	0.0051
	(0.0600)	(0.7900)	(0.1400)	(1.2500)	(0.7300)	(0.3700)	(-0.5200)	(0.9500)
Annualised Standard Deviation	2.7130	**0.3239****	-1.1000	**0.1544***	-1.1720	0.1169	-0.9290	**0.1195***
	(1.2500)	**(2.5200)**	(-0.8500)	**(1.8100)**	(-0.7800)	(1.3800)	(-0.8500)	**(1.7200)**
Beta	0.1450	0.0144	-0.0500	-0.0029	0.0180	-0.0032	-0.0080	-0.0001
	(0.7900)	(1.4100)	(-0.4700)	(-0.6900)	(0.2000)	(-0.9400)	(-0.0700)	(-0.0500)
Correlation	0.0390	0.0093	0.0140	-0.0008	0.0130	-0.0023	0.0490	0.0014
	(0.2900)	(1.2300)	(0.1700)	(-0.2400)	(0.1800)	(-0.7200)	(0.6300)	(0.3900)
Information Ratio	0.2280	0.0081	0.0390	0.0052	0.0660	0.0028	-0.0400	0.0025
	(1.2600)	(1.4800)	(0.2400)	(1.0900)	(0.5600)	(0.8400)	(-1.0500)	(0.9900)
Max Drawdown	-3.1140	-0.2288	0.8580	0.0209	0.5360	-0.0492	6.2530	-0.1129
	(-0.9200)	(-1.2600)	(0.2400)	(0.1100)	(0.1400)	(-0.2400)	(1.5200)	(-0.5600)
Performance	2.5280	-0.3068	-1.7220	0.0378	1.6230	-0.0301	0.3250	0.0215
	(0.4400)	(-0.8200)	(-0.4600)	(0.2500)	(0.4200)	(-0.2300)	(0.1900)	(0.3000)
R-Squared	-0.0300	0.0020	0.0210	0.0008	0.0260	-0.0014	0.0730	0.0026
	(-0.2300)	(0.3300)	(0.1900)	(0.1700)	(0.2700)	(-0.3700)	(0.7100)	(0.5200)
Return/Risk Ratio	-0.0520	-0.0076	-0.0090	0.0001	0.0270	0.0004	0.0140	0.0009
	(-0.3900)	(-1.2200)	(-0.1500)	(0.0400)	(0.5100)	(0.2100)	(0.6100)	(0.7000)
Sharpe Ratio	-0.1820	-0.0460	0.0200	0.0031	0.0140	0.0015	0.0210	0.0017
	(-0.2500)	(-1.2800)	(0.1900)	(0.9100)	(0.2900)	(0.6900)	(0.8200)	(1.2600)
Tracking Error	0.3340	**0.0632****	-0.1010	**0.0400***	-0.7070	0.0395	-0.1070	0.0198
	(0.6300)	**(2.3000)**	(-0.2400)	**(1.8600)**	(-0.9100)	(1.4900)	(-0.2500)	(0.9500)
Treynor Ratio	-0.1050	0.0120	0.0170	0.0028	0.0340	-0.0250	0.0730	0.0560
	(-0.1300)	(0.4300)	(0.3400)	(0.6300)	(0.6100)	(-0.7200)	(0.1500)	(0.9200)

Note: Numbers in parentheses represent t statistics. Significance levels are denoted by asterisks: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. All models include the IMR adjustment.

Table 5: Home bias coefficient differences between funds domiciled in IMPS countries (Indonesia, Malaysia, Pakistan, and Saudi Arabia) vs the non-IMPS domiciary countries

Outcome	1-Year		3-Year		5-Year		10-Year	
	Home	Home Alloc	Home	Home Alloc	Home	Home Alloc	Home	Home Alloc
Alpha	0.0010	0.0114	**-0.5590*** **	**-0.0084*** **	**-0.5490*** **	**-0.0084*** **	-0.0780	**-0.0024** **
	(0.0000)		**(-3.2300)**	**(-4.2600)**	**(-3.7100)**	**(-4.3600)**	(-0.7600)	**(-2.2000)**
Annualised Standard	-4.3060	-0.0373	-2.7320	-0.0173	-0.9000	-0.0057	-2.2800	-0.0266
Deviation	(-1.0800)	(-0.7800)	(-1.2300)	(-0.6600)	(-0.5500)	(-0.2600)	(-1.3500)	(-1.1900)
Beta	-0.1360	-0.0003	0.1060	0.0011	**0.1990*** **	**0.0019*** **	**0.1500** **	**0.0017*** **
	(-1.0400)	(-0.1600)	(1.3500)	(1.1600)	**(3.2300)**	**(2.8000)**	**(2.3900)**	**(2.6600)**
Correlation	**-0.2140** **	-0.0008	-0.0010	0.0000	-0.0000	-0.0003	0.0150	-0.0003
	(-2.3200)	(-0.6300)	(-0.0300)	(0.0400)	(-0.0100)	(-0.3900)	(0.2700)	(-0.4300)
Information Ratio	-0.0830	0.0004	**-0.1570*** **	**-0.0013** **	**-0.1720*** **	**-0.0022*** **	-0.0520	**-0.0010** **
	(-0.7500)	(0.1700)	**(-2.6300)**	**(-2.0100)**	**(-4.3900)**	**(-4.3200)**	(-1.3400)	**(-2.3400)**
Max Drawdown	4.2080	0.0366	-1.3920	-0.0303	0.2890	-0.0053	4.7650	0.0668
	(1.1200)	(0.7700)	(-0.4300)	(-0.7600)	(0.0800)	(-0.1300)	(0.9300)	(1.0900)
Performance	7.3550	0.0630	-1.5600	-0.0187	-3.4140	-0.0433	-0.5840	0.0068
	(1.3500)	(0.9400)	(-0.6100)	(-0.7100)	(-1.3500)	(-1.3400)	(-0.3000)	(0.3100)
R-Squared	-0.0790	0.0004	0.0050	0.0003	-0.0000	-0.0001	0.0190	-0.0002
	(-0.9600)	(0.4000)	(0.0900)	(0.3400)	(-0.0100)	(-0.1500)	(0.2500)	(-0.2400)
Return/Risk Ratio	0.0890	0.0006	0.1098	-0.0006	0.1260	-0.0006	-0.0180	0.0002
	(0.8300)	(0.4600)		(-1.3700)		(-1.3200)	(-0.6900)	(0.5300)
Sharpe Ratio	0.6020	0.0167	**-0.1360*** **	-0.0007	**-0.0950*** **	**-0.0009** **	-0.0370	-0.0001
	(0.7900)	(1.1800)	**(-3.2400)**	(-1.1000)	**(-3.0000)**	**(-2.3400)**	(-1.6300)	(-0.2600)
Tracking Error	-1.7550	-0.0090	-1.3560	-0.0057	-0.8520	-0.0028	2.1093	-0.0065
	(-1.1800)	(-0.6700)	(-1.4000)	(-0.5900)	(-1.0700)	(-0.3100)	(0.3500)	(-0.7500)
Treynor Ratio	-0.0390	0.0024	0.0150	0.0103	-0.0200	-0.3401	0.0920	-0.0302
	(-0.5600)	(0.2000)	(0.6200)	(0.3600)	(-0.5300)	(-0.4400)	(0.1800)	(-0.8300)

Note: Numbers in parentheses represent t statistics. Significance levels are denoted by asterisks: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. All models include the IMR adjustment.

Table 4 tests for non-linear relationships by comparing the effect of home bias in funds with above-median versus below-median allocations. The results provide no support for the Information Advantage (H1), as the coefficient differences for Alpha, Sharpe Ratio, and Performance are statistically insignificant across all horizons. Conversely, the table provides strong evidence of a non-linear Diversification Cost (H2). For the Home Alloc specification, the coefficient differences are positive and significant for Annualised Standard Deviation (at 1, 3, and 10-year horizons) and Tracking Error (at 1 and 3-year horizons). This suggests that while performance benefits (H1) are negligible at all levels, the risk costs (H2), specifically higher volatility and active risk, accelerate for funds that engage in excessive (above-median) home bias.

Table 5 directly tests RQ3 and the H3 by comparing the home bias coefficients for funds domiciled inside IMPS countries (n=482) versus those outside (n=264). The results lead to a clear rejection of H3 in which the data shows the exact opposite. The coefficient differences for Alpha and Information Ratio are negative and highly significant, particularly at the 3 and 5-year horizons. This indicates that home bias has a statistically weaker (more negative) impact on manager skill for funds domiciled within the IMPS region. These findings portray a sub-optimal strategy that is contrary to H3. Far from providing a superior information environment, home bias in IMPS countries is associated with a more aggressive systematic risk profile (Beta) that is subsequently penalized with significantly negative, benchmark-adjusted returns (Alpha).

Discussion

This study's findings have direct, actionable implications for investors, particularly for fund screening. The results show that home bias is an active, risk-shifting strategy, not a passive one. For an investor, the key takeaway from the full-sample analysis (Table 3) is that home bias involves an explicit trade-off: managers reduce market co-movement (lower Beta) but significantly increase idiosyncratic risk, particularly downside exposure (deeper Max Drawdown). This is rarely a good trade-off. While managers do demonstrate skill (positive Alpha), consistent with local information theories (Coval & Moskowitz, 1999), this benefit is often consumed by the risk it creates, leading to insignificant net risk-adjusted returns (Sharpe Ratios). Thus, the first screening rule is clear: investors should be skeptical of the local expertise narrative and view a high home bias as a major risk factor, not a clear benefit.

The results also provide a red flag for managers and a second screening rule for investors regarding excessive concentration. The test for non-linear effects (Table 4) demonstrates an asymmetry i.e. the performance benefits of home bias do not increase for funds with above-median domestic allocations, but the risk costs do. This aligns with theory suggesting that while moderate bias may be justifiable (Van Nieuwerburgh & Veldkamp, 2009), excessive concentration destroys value (Ong, 2023). For an investor, this provides a clear, quantitative screening rule i.e. funds with an excessive (e.g., above-median) domestic allocation should be filtered out, as they add uncompensated risk.

I hypothesized (H3) that the deep, mature IMPS markets would enhance the Information Advantage (Billah, 2019); however, the data shows the opposite. I find that home bias in IMPS countries leads to statistically significant negative Alpha (Table 5). This suggests

the drivers of home bias in IMFs may have less to do with informational advantages and more to do with structural constraints (Hayat & Kraeussl, 2011) that force a sub-optimal, concentrated strategy. For investors, this is the strongest finding: a fund's domicile is a critical risk factor, and a home-biased fund domiciled in an IMPS market is a statistically sub-optimal investment. This finding provides the evidence that managers should promote regional diversification and strengthening the infrastructure for cross-border investment is necessary to allow managers to escape this domestic performance trap.

Conclusion

This study provides the first comprehensive, multi-horizon examination of the home bias trade-off in Islamic mutual funds. Analyzing 691 IMFs, I find that home bias is a high-risk strategy where managers successfully generate skill by taking on significant uncompensated idiosyncratic risk, offering a poor trade-off for investors. The most critical findings are that the risks of home bias are non-linear: excessive (above-median) domestic allocation adds significant risk with no additional performance benefit. Additionally, rather than enhancing performance, home bias in the core IMPS markets is associated with significant underperformance and a higher-risk profile.

Limitation and Directions of Future Research

These findings lead to several critical avenues for future research. The primary puzzle is why home bias in IMPS markets leads to a higher-beta, negative-alpha outcome. Is this due to herding or structural flaws in the local Shariah-compliant universe? Answering this requires new research designs. A holdings-based dynamic analysis is needed to decompose home bias into its sector bias, while a matched-sample analysis of conventional funds in IMPS markets could isolate whether this is a Shariah-specific or a broader market-structure problem. Furthermore, behavioral studies on investor flows and governance studies on Shariah board composition could reveal if managers are pushed into this sub-optimal strategy by local client demand. Finally, to address questions of market segmentation, future work should explore barriers to entry for international investors, as our sample may reflect institutional availability rather than full retail access, clarifying who can access these funds and what barriers remain.

Use of Artificial Intelligence

AI as Writing Assistant: Generative AI tools were used to assist with limited portions of manuscript preparation, including drafting assistance for select sections, language refinement and editing suggestions, and literature synthesis support.

All substantive intellectual contributions - including research design, econometric modeling, hypothesis formulation, data analysis, interpretation of empirical results, theoretical argumentation, and critical conclusions - were developed entirely by the author. AI-generated text was reviewed, revised, and validated to ensure accuracy, coherence, and alignment with the research findings. The author takes full responsibility for the accuracy, integrity, and validity of all claims, analyses, and conclusions presented in this work.

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Appendix

Appendix 1: Distribution and Mean Home Bias Statistics by Domicile Country/Jurisdiction

DomicileCountry	N	%N	Home	%Home	Mean Home Alloc	Mean IMPS Alloc
IMPS Countries						
Malaysia	210	30.39	82	39.05	27.77	28.57
Saudi Arabia	115	16.64	74	64.35	50.96	55.48
Indonesia	77	11.14	47	61.04	42.73	47.62
Pakistan	26	3.76	26	100.00	56.71	70.88
Non-IMPS Countries						
Luxembourg	76	11.00	0	0.00	1.82	7.73
Ireland	66	9.55	0	0.00	0.51	4.16
South Africa	45	6.51	24	53.33	33.94	0.00
Guernsey	11	1.59	0	0.00	0.41	4.31
Kuwait	11	1.59	5	45.45	45.38	46.77
India	10	1.45	10	100.00	93.73	0.00
Egypt	9	1.30	9	100.00	77.24	25.68
USA	8	1.16	0	0.00	0.00	1.68
Cayman Islands	5	0.72	0	0.00	7.51	9.16
Thailand	5	0.72	5	100.00	96.19	2.15
Canada	4	0.58	0	0.00	3.11	0.00
Bahrain	2	0.29	0	0.00	0.00	34.22
Mauritius	2	0.29	0	0.00	0.00	0.00
Oman	2	0.29	0	0.00	0.54	70.56
Turkey	2	0.29	2	100.00	67.91	36.25
UK	2	0.29	0	0.00	0.00	0.00
Japan	1	0.14	0	0.00	0.00	47.79
Tunisia	1	0.14	1	100.00	83.64	0.00
United Arab Emirates	1	0.14	0	0.00	36.82	58.95

Appendix 2: Full Sample Regression Results – The Impact of Home Bias on Fund Performance and Risk

Outcome	Horizon	Model	Home	HOME Alloc	Fund Age	LNSize	Exp Ratio	Dividend Paid	IMPS Alloc	IMR	N	R^2
Alpha	1 Year	Home	0.2807		0.0197**	0.0537	-0.0910*	0.2311*	0.0022	17.9200***	691	0.0840
			(0.1780)		(0.0090)	(0.0330)	(0.0540)	(0.1315)	(0.0022)	(6.2528)		
		Home Alloc		0.0035*	0.0210**	0.0551	-0.0889	0.2465*	0.0011	15.4670**	691	0.0820
				(0.0021)	(0.0090)	(0.0340)	(0.0550)	(0.1250)	(0.0022)	(6.4411)		
	3 Years	Home	-0.0471		0.0100***	0.0730**	-0.1000***	-0.1725**	0.0037***	5.9446	576	0.1400
			(0.0880)		(0.0040)	(0.0240)	(0.0350)	(0.0808)	(0.0014)	(4.3124)		
	3 Years	Home Alloc		0.0005	0.0115***	0.0744***	-0.0990***	-0.1843**	0.0030*	5.2840	576	0.1400
				(0.0014)	(0.0040)	(0.0244)	(0.0358)	(0.0805)	(0.0016)	(4.3294)		
	5 Years	Home	0.0600		0.0084*	0.0922***	-0.0716**	-0.0059	0.0024**	7.1252**	475	0.1300
			(0.0869)		(0.0044)	(0.0281)	(0.0361)	(0.0862)	(0.0011)	(2.7864)		
	5 Years	Home Alloc		0.0011	0.0086**	0.0927***	-0.0711*	-0.0043	0.0019	5.7574**	475	0.1300
				-0.0015	(0.0043)	(0.0283)	(0.0364)	(0.0823)	(0.0016)	(2.8549)		
	10 Years	Home	0.1353**		-0.0010	0.0714***	-0.0718***	-0.0933*	0.0015**	-0.0629	272	0.3400
			(0.0526)		(0.0022)	(0.0130)	(0.0233)	(0.0487)	(0.0006)	(4.5116)		
	10 Years	Home Alloc		0.0022***	-0.0003	0.0739***	-0.0693***	-0.0882*	0.0006	0.4333	272	0.3500
				(0.0006)	(0.0022)	(0.0127)	(0.0214)	(0.0445)	(0.0006)	(4.4984)		

Appendix 2: Full Sample Regression Results – The Impact of Home Bias on Fund Performance and Risk (Cont.)

Outcome	Horizon	Model	Home	HOME Alloc	Fund Age	LNSize	Exp Ratio	Dividend Paid	IMPS Alloc	IMR	N	R^2
Annualised Standard Deviation	1 Year	Home	1.3473		-0.0365	-0.0312	0.4442	-1.1665	-0.0033	-58.1693	691	0.0100
			(1.6148)		(0.0429)	(0.3231)	(0.3686)	(1.1883)	(0.0153)	(7.2403)		
	1 Year	Home Alloc		0.0134	-0.0280	-0.0297	0.4469	-1.0599	-0.0057	-61.0431	691	0.0100
				(0.0173)	(0.0478)	(0.3230)	(0.3734)	(1.1010)	(0.0156)	(3.8593)		
	3 Years	Home	1.1089		-0.0033	-0.0118	0.1735	1.0815	-0.0129	6.8700	576	0.0200
			(0.9108)		(0.0395)	(0.1617)	(0.2531)	(0.7225)	(0.0102)	(4.2645)		
	3 Years	Home Alloc		0.0090	0.0034	-0.0163	0.1718	1.1937*	-0.0136	4.0539	576	0.0200
				(0.0108)	(0.0414)	(0.1648)	(0.2589)	(0.7133)	(0.0114)	(4.5266)		
	5 Years	Home	4.6067***		-0.0372	-0.3837**	0.1359	0.4240	-0.0118	-68.3224***	475	0.1800
			(0.8566)		(0.0369)	(0.1938)	(0.2667)	(0.5958)	(0.0093)	(20.3630)		
	5 Years	Home Alloc		0.0440***	-0.0241	-0.4015**	0.1054	0.8304	-0.0206*	-91.9490***	475	0.1100
				(0.0120)	(0.0351)	(0.2025)	(0.2864)	(0.6361)	(0.0123)	(5.1675)		
	10 Years	Home	3.1311***		-0.0170	-0.4175**	0.0500	-1.0303	-0.0009	-89.3139	272	0.1800
			(0.8872)		(0.0324)	(0.1757)	(0.2309)	(0.7045)	(0.0093)	(4.8918)		
	10 Years	Home Alloc		0.0233*	0.0018	-0.3900**	0.1101	-0.7123	-0.0018	-57.5476	272	0.1100
				(0.0119)	(0.0298)	(0.1895)	(0.2684)	(0.7275)	(0.0125)	(5.4501)		

Appendix 2: Full Sample Regression Results – The Impact of Home Bias on Fund Performance and Risk (Cont.)

Outcome	Horizon	Model	Home	HOME Alloc	Fund Age	LNSize	Exp Ratio	Dividend Paid	IMPS Alloc	IMR	N	R^2
Beta	1 Year	Home	-0.3728***		-0.0079***	0.0569***	-0.0047	-0.1641***	0.0009	-4.9837***	691	0.2400
			(0.0752)		(0.0029)	(0.0124)	(0.0200)	(0.0447)	(0.0009)	(1.5337)		
	1 Year	Home Alloc		-0.0022**	-0.0112***	0.0584***	-0.0039	-0.1975***	0.0004	-3.3216**	691	0.1700
				(0.0010)	(0.0034)	(0.0124)	(0.0203)	(0.0520)	(0.0010)	(1.5892)		
	3 Years	Home	-0.2005***		0.0008	0.0301***	-0.0058	-0.0421	0.0007*	1.1538	576	0.2000
			(0.0353)		(0.0020)	(0.0085)	(0.0109)	(0.0272)	(0.0004)	(0.9279)		
	3 Years	Home Alloc		-0.0017***	-0.0006	0.0308***	-0.0062	-0.0571**	0.0009*	1.8496*	576	0.1300
				(0.0005)	(0.0020)	(0.0087)	(0.0116)	(0.0277)	(0.0006)	(1.0474)		
	5 Years	Home	-0.1077***		0.0029*	0.0163**	-0.0010	-0.0159	0.0008**	0.7634	475	0.1000
			(0.0309)		(0.0017)	(0.0072)	(0.0093)	(0.0227)	(0.0003)	(0.8745)		
	5 Years	Home Alloc		-0.0013***	0.0024	0.0167**	-0.0009	-0.0218	0.0012***	1.3325	475	0.0800
				(0.0004)	(0.0017)	(0.0070)	(0.0091)	(0.0226)	(0.0004)	(0.8898)		
	10 Years	Home	-0.1033***		0.0013	0.0156**	-0.0112	-0.0646***	0.0010***	-0.3881	272	0.1700
			(0.0309)		(0.0011)	(0.0077)	(0.0097)	(0.0212)	(0.0004)	(2.6952)		
	10 Years	Home Alloc		-0.0010**	0.0007	0.0146*	-0.0132	-0.0732***	0.0012***	-0.5596	272	0.1400
				(0.0004)	(0.0012)	(0.0077)	(0.0097)	(0.0211)	(0.0005)	(2.6338)		

Appendix 2: Full Sample Regression Results – The Impact of Home Bias on Fund Performance and Risk (Cont.)

Outcome	Horizon	Model	Home	HOME Alloc	Fund Age	LNSize	Exp Ratio	Dividend Paid	IMPS Alloc	IMR	N	R^2
Correlation	1 Year	Home	-0.2922***		-0.0045**	0.0366***	-0.0081	-0.1032***	0.0001	-3.1583**	691	0.2600
			(0.0606)		(0.0021)	(0.0085)	(0.0138)	(0.0348)	(0.0007)	(1.2200)		
				-0.0017**	-0.0071***	0.0379***	-0.0074	-0.1290***	-0.0003	-1.7671	691	0.1800
		Home Alloc		-0.0008	(0.0024)	(0.0084)	(0.0136)	(0.0433)	(0.0007)	(1.4747)		
	3 Years	Home	-0.1655***		-0.0005	0.0206***	-0.0134	-0.0308	0.0003	0.2203	576	0.2300
			(0.0242)		(0.0012)	(0.0055)	(0.0086)	(0.0189)	(0.0003)	(0.5962)		
				-0.0016***	-0.0016	0.0210***	-0.0139	-0.0422**	0.0006	0.7353	576	0.1700
	3 Years	Home Alloc		(0.0004)	(0.0013)	(0.0059)	(0.0092)	(0.0200)	(0.0004)	(0.7787)		
	5 Years	Home	-0.1130***		0.0012	0.0206***	-0.0012	-0.0197	0.0003	1.5159**	475	0.1600
			(0.024)		(0.0011)	(0.0055)	(0.008)	(0.0185)	(0.0003)	(0.6264)		
				-0.0012***	0.0007	0.0212***	-0.0008	-0.0268	0.0006	1.9063***	475	0.1300
	5 Years	Home Alloc		(0.0004)	(0.0011)	(0.0055)	(0.0079)	(0.0197)	(0.0004)	(0.7287)		
	10 Years	Home	-0.0883***		-0.0007	0.0205***	-0.0056	-0.0785***	0.0007**	-1.5772	272	0.2400
			(0.0297)		(0.0012)	(0.0052)	(0.007)	(0.0194)	(0.0003)	(2.2163)		
				-0.0008*	-0.0012	0.0196***	-0.0073	-0.0858***	0.0008*	-2.0761	272	0.2000
	10 Years	Home Alloc		(0.0005)	(0.0011)	(0.0052)	(0.0068)	(0.0185)	(0.0004)	(2.1736)		

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Appendix 2: Full Sample Regression Results – The Impact of Home Bias on Fund Performance and Risk (Cont.)

Outcome	Horizon	Model	Home	HOME Alloc	Fund Age	LNSize	Exp Ratio	Dividend Paid	IMPS Alloc	IMR	N	R^2
Information Ratio	1 Year	Home	0.1782**		0.0008	0.0254**	-0.0681**	-0.0936	0.0010	2.9512	691	0.0500
			(0.0694)		(0.0026)	(0.0117)	(0.0319)	(0.0576)	(0.0008)	(3.3174)		
		Home Alloc		0.0013*	0.0021	0.0253**	-0.0683**	-0.0769	0.0010	1.6173	691	0.0400
				(0.0007)	(0.0027)	(0.0121)	(0.0326)	(0.0617)	(0.0008)	(3.0184)		
	3 Years	Home	0.0365		0.0023*	0.0354***	-0.0491***	-0.1224***	0.0017***	0.5421	576	0.2200
			(0.0323)		(0.0013)	(0.0098)	(0.0137)	(0.0341)	(0.0005)	(0.9938)		
		Home Alloc		0.0008*	0.0024*	0.0361***	-0.0485***	-0.1228***	0.0013**	-0.0316	576	0.2200
				(0.0004)	(0.0014)	(0.0101)	(0.0138)	(0.0348)	(0.0005)	(0.9791)		
	5 Years	Home	0.1133***		0.0009	0.0313***	-0.0270**	-0.0779***	0.0012***	0.4089	475	0.2900
			(0.024)		(0.0013)	(0.0089)	(0.0124)	(0.0254)	(0.0004)	(0.8705)		
		Home Alloc		0.0011***	0.0012	0.0308***	-0.0277**	-0.0686***	0.0009**	-0.5841	475	0.2600
				(0.0003)	(0.0013)	(0.0091)	(0.0123)	(0.0261)	(0.0004)	(1.1022)		
	10 Years	Home	0.1058***		-0.0002	0.0274***	-0.0254**	-0.0715***	0.0007***	-1.2874	272	0.3800
			(0.0166)		(-0.0010)	(0.0054)	(0.0106)	(0.0203)	(0.0002)	(2.3444)		
		Home Alloc		0.0010***	0.0004	0.0285***	-0.0233**	-0.0627***	0.0005*	-0.5871	272	0.3300
				(0.0003)	(0.0011)	(0.0057)	(0.0097)	(-0.0210)	(0.0003)	(2.4429)		

Appendix 2: Full Sample Regression Results – The Impact of Home Bias on Fund Performance and Risk (Cont.)

Outcome	Horizon	Model	Home	HOME Alloc	Fund Age	LNSize	Exp Ratio	Dividend Paid	IMPS Alloc	IMR	N	R^2
Max Drawdown	1 Year	Home	-1.9717		-0.0072	0.5697	-0.4251	2.7426***	-0.0151	140.3597***	691	0.0800
			(1.5140)		(0.0589)	(0.3493)	(0.3867)	(1.0431)	(0.0155)	(49.4890)		
	1 Year	Home Alloc		-0.0225	-0.0183	0.5635	-0.4341	2.6120***	-0.0092	148.6524**	691	0.0800
				(0.0186)	(0.0576)	(0.3509)	(0.3901)	(0.9609)	(0.0166)	(8.0836)		
	3 Years	Home	-4.0416**		0.1579**	0.7900**	-1.3485***	-3.6938***	0.0524***	70.9032	576	0.1300
			(1.5717)		(0.0609)	(0.3605)	(0.5065)	(1.0459)	(0.0183)	(3.4318)		
	3 Years	Home Alloc		-0.0270	0.1329**	0.8180**	-1.3312**	-4.1420***	0.0505**	81.1581	576	0.1100
				(0.0244)	(0.0612)	(0.3775)	(0.5203)	(1.0472)	(0.0244)	(9.5664)		
	5 Years	Home	-8.0318***		0.2277***	1.4359***	-1.6326**	-1.7906	0.0405**	152.2820***	475	0.2200
			-1.7730		(0.0679)	(0.4561)	(0.6805)	(1.3206)	(0.0202)	(0.0916)		
	5 Years	Home Alloc		-0.0637**	0.2046***	1.4896***	-1.5569**	-2.5920*	0.0463*	186.5429***	475	0.1700
				-0.0260	(0.0684)	(0.4818)	(0.7167)	(1.3856)	(0.0263)	(1.6499)		
	10 Years	Home	-7.0412***		0.0405	2.3485***	-0.8835	0.7383	-0.0530*	267.9806	272	0.3400
			(2.6153)		(-0.0900)	(0.4768)	(0.7976)	(2.0297)	(0.0273)	(2.1179)		
	10 Years	Home Alloc		-0.0173	-0.0040	2.3387***	-1.0162	-0.2200	-0.0762*	157.5064	272	0.3000
				-0.0373	(0.0863)	(0.5174)	(0.8919)	(2.0858)	(0.0391)	(7.6412)		

Appendix 2: Full Sample Regression Results – The Impact of Home Bias on Fund Performance and Risk (Cont.)

Outcome	Horizon	Model	Home	HOME Alloc	Fund Age	LNSize	Exp Ratio	Dividend Paid	IMPS Alloc	IMR	N	R^2
Performance	1 Year	Home	3.9115		-0.1017	1.8113***	-0.9095	7.3544***	-0.0444	362.0427***	691	0.1100
			(2.5726)		(0.1407)	(0.5305)	(0.9125)	(1.9805)	(0.0295)	(0.8669)		
	1 Year	Home Alloc		0.0593*	-0.0855	1.8395***	-0.8678	7.4874***	-0.0673*	317.7393***	691	0.1100
				-0.0355	(0.1396)	(0.5408)	(0.9239)	(2.0024)	(0.0348)	(0.8706)		
	3 Years	Home	-1.9420		0.1379***	1.3623***	-1.2548***	-3.0075***	0.0300*	155.0511***	576	0.1900
			(1.2701)		(0.0522)	(0.2955)	(0.4333)	(1.0346)	(0.0161)	(0.0721)		
	3 Years	Home Alloc		0.0061	0.1219**	1.4062***	-1.2227***	-3.3668***	0.0143	153.0894**	576	0.1800
				(0.0174)	(0.0518)	(0.3053)	(0.4393)	(1.0367)	(0.0189)	(0.1066)		
	5 Years	Home	-0.9959		0.0931*	1.6999***	-1.3803**	-2.1918**	0.0242	126.1921***	475	0.2400
			(1.2853)		(0.0502)	(0.3999)	(0.5335)	(1.1011)	(0.0167)	(0.4235)		
	5 Years	Home Alloc		0.0085	0.0900*	1.7327***	-1.3426**	-2.4057**	0.0127	114.5788***	475	0.2400
				-0.0216	(0.0504)	(0.4051)	(0.5422)	(1.0614)	(0.0225)	(0.8757)		
	10 Years	Home	-1.8615*		-0.0064	1.3607***	-0.6466**	-2.3925***	-0.0015	86.7658	272	0.4700
			(1.0560)		(0.0345)	(0.212)	(0.2522)	(0.7181)	(0.0117)	(0.5105)		
	10 Years	Home Alloc		0.0178	-0.0188	1.3965***	-0.6721**	-2.8080***	-0.0236*	48.4445	272	0.4500
				(0.0145)	(0.0338)	(0.2178)	(0.2746)	(0.7089)	(0.0131)	(0.4687)		

Appendix 2: Full Sample Regression Results – The Impact of Home Bias on Fund Performance and Risk (Cont.)

Outcome	Horizon	Model	Home	HOME Alloc	Fund Age	LNSize	Exp Ratio	Dividend Paid	IMPS Alloc	IMR	N	R^2
R-Squared	1 Year	Home	-0.2341***		-0.0027	0.0351***	-0.0150	-0.0882***	0.0002	-0.1846	691	0.2500
			(0.0452)		(0.0016)	(0.0077)	(0.0128)	(0.0285)	(0.0005)	(1.1602)		
	1 Year	Home Alloc		-0.0016**	-0.0046**	0.0357***	-0.0149	-0.1074***	0.0001	0.9110	691	0.1800
				(0.0007)	(0.0018)	(0.0078)	(0.0129)	(0.0340)	(0.0006)	(1.2170)		
	3 Years	Home	-0.2109***		-0.0017	0.0283***	-0.0147	-0.0586**	0.0005	0.1205	576	0.2600
			-0.0293		(0.0015)	(0.0063)	(0.0103)	(0.0231)	(0.0004)	(0.6527)		
	3 Years	Home Alloc		-0.0020***	-0.0031**	0.0288***	-0.0153	-0.0733***	0.0008	0.8293	576	0.1900
				(0.0005)	(0.0015)	(0.0068)	(0.0110)	(0.0261)	(0.0005)	(0.8777)		
	5 Years	Home	-0.1440***		0.0004	0.0270***	-0.0009	-0.0480**	0.0004	1.3253**	475	0.1800
			(0.0291)		(0.0013)	(0.0066)	(0.0100)	(0.0234)	(0.0003)	(0.6576)		
	5 Years	Home Alloc		-0.0015***	-0.0003	0.0278***	-0.0004	-0.0572**	0.0007	1.8476**	475	0.1500
				(0.0005)	(0.0013)	(0.0066)	(0.0098)	(0.0261)	(0.0005)	(0.7800)		
	10 Years	Home	-0.1287***		-0.0012	0.0296***	-0.0092	-0.1180***	0.0009**	-2.4417	272	0.2600
			(0.0390)		(0.0016)	(0.0066)	(0.0098)	(0.0262)	(0.0004)	(3.1052)		
	10 Years	Home Alloc		-0.0012*	-0.0020	0.0283***	-0.0117	-0.1286***	0.0012**	-3.1508	272	0.2200
				(0.0007)	(0.0016)	(0.0068)	(0.0097)	(0.0259)	(0.0006)	(3.0268)		

Appendix 2: Full Sample Regression Results – The Impact of Home Bias on Fund Performance and Risk (Cont.)

Outcome	Horizon	Model	Home	HOME Alloc	Fund Age	LNSize	Exp Ratio	Dividend Paid	IMPS Alloc	IMR	N	R^2
Return /Risk Ratio	1 Year	Home	0.0997*		0.0025	0.0293***	-0.0207	0.1519***	-0.0013**	8.5862***	691	0.1700
			(0.0602)		(0.0021)	(-0.0110)	(0.0158)	(-0.0370)	(0.0005)	(2.2134)		
		Home Alloc		0.0010	0.0031	0.0294***	-0.0205	0.1593***	-0.0015***	7.6043***	691	0.1600
				(0.0007)	(0.0021)	(0.0112)	(0.0159)	(0.0391)	(0.0006)	(2.2481)		
	3 Years	Home	-0.0200		0.0025***	0.0190***	-0.0227***	-0.0526***	0.0003	2.3134**	576	0.1800
			(0.0206)		(0.0008)	(0.0043)	(0.0073)	(0.0162)	(0.0003)	(0.9907)		
	3 Years	Home Alloc		0.0002	0.0023***	0.0197***	-0.0222***	-0.0576***	0.0001	2.2084**	576	0.1800
				(0.0003)	(0.0008)	(0.0044)	(0.0074)	(0.0167)	(0.0003)	(1.0329)		
	5 Years	Home	-0.0141		0.0012*	0.0223***	-0.0228***	-0.0443***	0.0003	1.5411***	475	0.2700
			(0.0180)		(0.0007)	(0.0053)	(0.0075)	(-0.0150)	(0.0002)	(0.4743)		
	5 Years	Home Alloc		0.0002	0.0011	0.0229***	-0.0222***	-0.0479***	0.0001	1.3890***	475	0.2700
				(0.0003)	(0.0007)	(0.0054)	(0.0076)	(0.0149)	(0.0003)	(0.4549)		
	10 Years	Home	-0.0287*		-0.0002	0.0198***	-0.0108***	-0.0422***	-0.0001	1.0876	272	0.5200
			(0.0160)		(0.0005)	(0.0033)	(0.0037)	(0.0101)	(0.0002)	(0.9651)		
	10 Years	Home Alloc		0.0003	-0.0004	0.0202***	-0.0114***	-0.0484***	-0.0005**	0.5203	272	0.5100
				(0.0002)	(0.0005)	(0.0033)	(0.0040)	(0.0109)	(0.0002)	(1.1083)		

Appendix 2: Full Sample Regression Results – The Impact of Home Bias on Fund Performance and Risk (Cont.)

Outcome	Horizon	Model	Home	HOME Alloc	Fund Age	LNSize	Exp Ratio	Dividend Paid	IMPS Alloc	IMR	N	R^2
Sharpe Ratio	1 Year	Home	-0.1878		0.0072	0.0385	-0.0015	0.3173	-0.0048*	10.0387	691	0.0200
			(0.1912)		(0.0123)	(0.0535)	(0.1192)	(0.2085)	(0.0029)	(9.6556)		
	1 Year	Home Alloc		-0.0001	0.0054	0.0401	0.0009	0.2883	-0.0058**	11.8978	691	0.0200
				(0.0017)	(0.0114)	(0.0528)	(0.1197)	(0.1887)	(0.0026)	(0.6732)		
	3 Years	Home	-0.0487		0.0053***	0.0130**	-0.0296***	0.0017	0.0001	2.5251	576	0.0600
			(0.0338)		(0.0018)	(0.0063)	(0.0103)	(0.0268)	(0.0004)	(1.7380)		
	3 Years	Home Alloc		0.0002	0.0049***	0.0141**	-0.0288***	-0.0083	-0.0003	2.5658	576	0.0600
				(0.0004)	(0.0017)	(0.0063)	(0.0102)	(0.0243)	(0.0004)	(1.8584)		
	5 Years	Home	0.0215		0.0016**	0.0213***	-0.0262***	-0.0308**	0.0002	1.6076***	475	0.2700
			(0.0176)		(0.0008)	(0.0053)	(0.0077)	(0.0155)	(0.0002)	(0.488)		
	5 Years	Home Alloc		0.0001	0.0016*	0.0220***	-0.0255***	-0.0351**	0	1.5092***	475	0.2700
				(0.0003)	(0.0008)	(0.0054)	(0.0078)	(0.0155)	(0.0003)	(0.4700)		
	10 Years	Home	0.0384***		0	0.0180***	-0.0159***	-0.0215**	-0.0002	1.0503	272	0.4800
			(0.0146)		(0.0005)	(0.0031)	(0.0045)	(0.0107)	(0.0002)	(0.8732)		
	10 Years	Home Alloc		0.0001	-0.0002	0.0183***	-0.0166***	-0.0284**	-0.0005***	0.4587	272	0.4400
				(0.0002)	(0.0005)	(0.0032)	(0.0049)	(0.0118)	(0.0002)	(1.0144)		

Appendix 2: Full Sample Regression Results – The Impact of Home Bias on Fund Performance and Risk (Cont.)

Outcome	Horizon	Model	Home	HOME Alloc	Fund Age	LNSize	Exp Ratio	Dividend Paid	IMPS Alloc	IMR	N	R^2
Tracking Error	1 Year	Home	1.3884***		0.0145	-0.2633***	0.0810	0.1402	-0.0071	-11.6149	691	0.0700
			(0.5120)		(0.0161)	(0.0966)	(0.0963)	(0.3386)	(0.0067)	(3.2619)		
	1 Year	Home Alloc		0.0088**	0.0251	-0.2664***	0.0770	0.2837	-0.0058	-18.6573	691	0.0500
				-0.0040	(0.0208)	(0.1005)	(0.1025)	(0.2723)	(0.0045)	(4.2234)		
	3 Years	Home	1.0471***		0.0018	-0.1883**	0.0351	0.1742	-0.0075	-21.0449**	576	0.0800
			(0.3399)		(0.0107)	(0.0746)	(0.0751)	(0.2462)	(0.0046)	(8.3605)		
	3 Years	Home Alloc		0.0086**	0.0081	-0.1910**	0.0349	0.2760	-0.0082**	-25.1856**	576	0.0500
				-0.0035	(0.0127)	(0.0792)	(0.0807)	(0.2071)	(0.0039)	(9.7324)		
	5 Years	Home	1.5085***		-0.0285**	-0.2258***	-0.0480	-0.0843	-0.0063	-40.2051***	475	0.1300
			-0.3189		(0.0120)	(0.0806)	(0.0961)	(0.2717)	(0.0040)	(1.4104)		
	5 Years	Home Alloc		0.0140***	-0.0238*	-0.2340***	-0.0583	0.0487	-0.0090**	-47.1575***	475	0.0900
				(0.0045)	(0.0127)	(0.0842)	(0.0969)	(0.2538)	(0.0044)	(3.5074)		
	10 Years	Home	0.8783**		-0.0107	-0.2792***	-0.0633	-0.0119	-0.0065	-11.7820	272	0.1400
			(0.3432)		(0.0105)	(0.0834)	(0.0689)	(0.2722)	(0.0043)	(28.6250)		
	10 Years	Home Alloc		0.0054	-0.0053	-0.2736***	-0.0460	0.0803	-0.0059	-5.2644	272	0.1000
				(0.0037)	(0.0096)	(0.0880)	(0.0720)	(0.2409)	(0.0037)	(8.6708)		

Appendix 2: Full Sample Regression Results – The Impact of Home Bias on Fund Performance and Risk (Cont.)

Outcome	Horizon	Model	Home	HOME Alloc	Fund Age	LNSize	Exp Ratio	Dividend Paid	IMPS Alloc	IMR	N	R^2
Treynor Ratio	1 Year	Home	-9.9768		0.0060	-2.8127	0.9416	6.7164	-0.0596	156.7587	691	0.0100
			(13.1220)		(0.4528)	(3.9078)	(5.3549)	(1.5854)	(0.1493)	(484.1700)		
	1 Year	Home Alloc		-0.0142	-0.0997	-2.7180	1.0303	5.5186	-0.1060	207.7611	691	0.0030
				(0.0527)	(0.4006)	(3.9101)	(5.3725)	(0.3704)	(0.1294)	(4.5759)		
	3 Years	Home	-4.5320		0.1704	0.3620	0.0716	2.9676	0.0393	41.1534	576	0.0200
			(3.6075)		(0.1152)	(0.8735)	(0.4609)	(-2.0770)	(0.0352)	(97.6320)		
	3 Years	Home Alloc		-0.0725	0.1489	0.3257	0.0256	2.8670	0.0695	48.9283	576	0.0200
				(0.0809)	(0.1026)	(0.8011)	(0.4061)	(2.0785)	(0.0775)	(4.6364)		
	5 Years	Home	-0.5725		0.0606	0.1545*	-0.2377	0.7388	-0.0065	14.3751	475	0.0200
			(0.6766)		(0.0406)	(0.0886)	(0.2059)	(0.6264)	(0.0093)	(7.6889)		
	5 Years	Home Alloc		0.0004	0.0576	0.1683*	-0.2259	0.6644	-0.0098	16.2823	475	0.0200
				(0.0089)	(0.0386)	(0.0951)	(0.2076)	(0.5803)	(0.0087)	(9.1598)		
	10 Years	Home	-0.3404		0.0034	0.1432**	-0.0784*	0.0415	0.0016	16.4898	272	0.1500
			(0.2272)		(0.0042)	(0.0566)	(0.0414)	(0.1624)	(0.0029)	(4.5616)		
	10 Years	Home Alloc		0.0023	0.0010	0.1459**	-0.0854**	-0.0227	-0.0018	12.2423	272	0.1300
				(0.0015)	(0.0033)	(0.0580)	(0.0409)	(0.1320)	(0.0015)	(3.4623)		

Notes: Numbers in parentheses represent standard errors, clustered by fund management company. Significance levels are denoted by asterisks: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. All models include the IMR adjustment.