

INDEX FUND INVESTMENT MODEL: A SYSTEM DYNAMICS PERSPECTIVE

Nanang Rosidin^{*1}, Sudarso Kaderi Wiryono², Oktofa Yudha Sudrajad³

ABSTRACT

Index Funds and Exchange Traded Funds (ETFs) have experienced tremendous growth in the US and Indonesia in the past decades. By the end of 2020, assets in these funds had grown to USD 9.9 trillion in the US and IDR 15.88 trillion in Indonesia. Although they are long-term investment vehicles, one-third of index fund products in Indonesia were discontinued in the last eight years. Various factors affect the performance and survival of these funds, but they are often overlooked or studied separately. Existing research methods fail to capture the complex structure and dynamic nature of these funds. Our study fills this gap by modelling the structure that drives fund performance and flow behavior. We incorporate variables that have previously been studied in isolation to provide managers with a more holistic view of index fund structure and identify leverage points for improving performance. This approach also gives investors an overview of how index funds can contribute to their investment goals. By taking a more comprehensive approach, our model takes into account multiple factors that influence fund flows and performance, offering a more nuanced understanding of how these funds operate.

Keywords: index fund, investment model, system structure, leverage points.

* Corresponding to: Nanang Rosidin, School of Business and Management, ITB, Indonesia.
E-mail: nanang_rosidin@sbm-itb.ac.id

¹ School of Business and Management, Institut Teknologi Bandung, Indonesia

² School of Business and Management, Institut Teknologi Bandung, Indonesia

³ School of Business and Management, Institut Teknologi Bandung, Indonesia