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Research Article

The Effect of Global Diversification, Exchange Rates, and Interest Rates on the Performance of Mixed Mutual Funds in Indonesia

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Abstract: This study aims to analyze the effect of global diversification, exchange rates, and interest rates on the performance of mixed mutual funds in Indonesia during the period 2020–2024. The method used is a quantitative approach with the Partial Least Squares–Structural Equation Modeling (PLS-SEM) technique, using secondary data from the Financial Services Authority, Bank Indonesia, and Bareksa. The sample consists of three mixed mutual fund products that meet the criteria of portfolio data completeness, net asset value, and performance report publication. The results show that exchange rates have a positive and significant effect on mutual fund performance, indicating that exchange rate fluctuations play an important role in determining changes in portfolio returns. The global diversification variable proved to have no significant effect, illustrating that exposure to international markets has not provided stable benefits in improving the performance of mixed mutual funds. Interest rates also did not show a significant effect because the composition of mixed portfolios was able to withstand the impact of monetary policy changes. Simultaneously, the three independent variables were able to explain 66.7 percent of the variation in mixed mutual fund performance, indicating that macroeconomic dynamics and portfolio strategies have an important contribution in influencing the performance of this collective investment instrument.

Keywords: Exchange Rate; Global Diversification; Interest Rate; Mixed Mutual Funds; Quantitative Approach.

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1. Introduction

The development of the mutual fund industry in Indonesia has shown a strong upward trend as retail and institutional investors increasingly utilize this instrument as a more structured and accessible means of portfolio diversification. This growth is further supported by strengthened regulations and greater transparency in product performance information, thereby encouraging research on external factors that influence investment outcomes. In recent years, Indonesia's financial market conditions have demonstrated significant dynamics driven by both global and domestic shifts, making balanced mutual funds an attractive instrument due to their flexible allocation between equities and bonds. The complex nature

of balanced mutual funds necessitates a broader understanding of the determinants of their performance, encompassing both asset management strategies and macroeconomic factors that are difficult to predict.

Global diversification has become a widely studied strategy because it is believed to mitigate country-specific risks, particularly during periods of heightened market pressure and cross-country economic uncertainty (Andreansyah et al., 2025). This approach provides opportunities for investment managers to exploit movements in foreign markets that may offer more stable returns compared to full reliance on the domestic market. However, its implementation is not as straightforward as the theory suggests, as global exposure is always accompanied by currency risk, transaction costs, and differences in volatility across countries factors that investment managers cannot always map accurately. These circumstances create the need for empirical research capable of explaining whether global diversification truly contributes to the performance of balanced mutual funds in Indonesia.

Several studies indicate that international diversification can yield varying benefits depending on global market conditions, cross-country correlations, and the ability of investment managers to select the right instruments (Aprillia et al., 2018). When market correlations increase, the advantages of diversification tend to diminish, causing global risks to spread more rapidly and affect domestic markets simultaneously. Such situations are often evident during periods of global financial crises, when asset movements across countries become synchronized, meaning that funds with global components do not always experience the expected performance stability. These dynamics underscore the need for more specific empirical studies on the Indonesian market, as each country possesses distinct asset movement characteristics and market sensitivities.

The exchange rate serves as a highly relevant macroeconomic variable in determining mutual fund performance, particularly for products with exposure to foreign currency denominated assets (Annisa et al., 2025). Exchange rate fluctuations may generate additional gains for investors when rupiah depreciation increases the value of foreign assets in rupiah terms, but excessive volatility can heighten overall portfolio risk. This dual effect positions the exchange rate as a variable that influences not only the portfolio directly but also investor expectations and capital flow directions. Such conditions reinforce the importance of deepening research on the exchange rate as a determinant of balanced mutual fund performance.

Previous empirical findings show that the rupiah exchange rate has a significant relationship with the performance of various types of mutual funds, including those oriented toward fixed income and equities, suggesting its relevance to balanced mutual funds as well (Fauzi & Wijoyo, 2025). This relationship arises because exchange rate changes affect not only foreign exchange instruments but also corporate cost structures, country risk perceptions, and foreign investment flows. When the exchange rate exhibits unpredictable trends, investment managers must adjust their asset allocation strategies to maintain portfolio stability. The complexity of the relationship between the exchange rate and mutual fund performance presents a broad space for deeper investigation through more comprehensive analytical approaches.

Another factor influencing mutual fund performance is the interest rate, which is often regarded as a key indicator of monetary policy direction in maintaining national liquidity and

economic stability (Kautsar et al., 2025). Changes in benchmark interest rates directly affect bond prices, corporate capital costs, and investor preferences for risky assets, thus influencing the performance of balanced mutual funds holding a combination of stocks and bonds. When interest rates rise, bond portfolios generally experience price pressure, while stocks may be affected through reduced investor appetite and weaker growth prospects. This situation makes the effect of interest rates on balanced mutual fund performance a consistently relevant research topic requiring updated empirical evidence.

Previous studies suggest that mutual fund sensitivity to interest rate changes may vary depending on portfolio composition and investment manager strategies, implying that earlier research results cannot be generalized without considering product characteristics (Novita et al., 2019). Balanced mutual funds have a unique asset structure that combines fixed-income instruments and equities, each of which responds differently to interest rate shifts. This combination may create offsetting or overlapping effects that obscure the direction of interest rate influence without empirical analysis. Such a situation reinforces the need for research that specifically assesses whether interest rates truly affect balanced mutual fund performance within the Indonesian context.

Based on these dynamics, this study is designed to empirically examine how global diversification, exchange rates, and interest rates contribute to the performance of balanced mutual funds in Indonesia, particularly during the 2020–2024 period marked by market uncertainty and shifts in economic policy. A quantitative approach using PLS-SEM is chosen to provide a more accurate depiction of causality among variables that are complex and highly interactive. This study is expected to offer sharper academic insights while providing practical information for investment managers in formulating portfolio management strategies that are more adaptive to global and domestic macroeconomic volatility. The research outcomes are relevant not only to the mutual fund industry but also to regulators and investors who require analytical foundations for assessing the risks and opportunities that influence the performance of these collective investment instruments.

2. Preliminaries or Related Work or Literature Review

Mutual Funds and Mixed Mutual Fund Performance

Mutual funds are collective investment instruments that pool funds from investors to be invested in a portfolio of securities by an investment manager. According to the OJK, mutual funds are divided into several types, one of which is a mixed mutual fund that combines stocks and bonds. The main characteristic of mixed mutual funds is flexibility in asset allocation, which allows for a balance between return and risk (Roikhatul Jannah et al., 2024). Mutual fund performance is generally measured by absolute return indicators and risk-adjusted return indicators such as the Sharpe ratio, Treynor ratio, and Jensen's alpha. Previous studies have shown that mutual fund performance is influenced by internal factors (investment manager policies, portfolio allocation strategies) and external factors (macroeconomic conditions, global market volatility).

Global Diversification and Mutual Fund Performance

Global diversification is a strategy of spreading investment assets across international markets to reduce specific domestic risks. Modern portfolio theory proposed by (Khaddafi et al., 2025) asserts that total portfolio risk can be reduced by combining assets with low

correlation. In the context of mutual funds, global diversification is often used to improve performance stability, especially when domestic markets are under pressure. Empirical research shows that international diversification can provide additional returns while increasing risk due to global volatility. (Aprillia et al., 2018) found that Indonesian mutual funds with exposure to global assets showed significant performance variations, depending on global market conditions. This is in line with the findings of Cakici et al. (2021), who stated that the benefits of global diversification are increasingly limited when correlations between markets increase due to financial globalization.

Exchange Rates and Mutual Fund Performance

Exchange rates play an important role in determining mutual fund performance, especially for portfolios that are exposed to foreign currency-denominated instruments. Depreciation of the Rupiah can increase the return on foreign assets after conversion to domestic currency, but it also poses a risk of volatility that can reduce the attractiveness of mutual funds (Annisa et al., 2025). Mulianta Ginting (2013) also found that the exchange rate of the Rupiah against the US Dollar has a significant effect on the performance of fixed income mutual funds in Indonesia. This finding is consistent with the purchasing power parity theory and the asset market approach, which explain the close relationship between exchange rate fluctuations, capital flows, and financial asset prices.

Interest Rates and Mutual Fund Performance

Interest rates are one of the monetary policy instruments that affect capital market performance and investment instruments. An increase in Bank Indonesia's benchmark interest rate tends to suppress bond prices, increase capital costs, and reduce investor interest in risky instruments. Conversely, a decrease in interest rates can increase liquidity and improve the performance of bond-based portfolios. According to Kautsar (2025), interest rates have a significant effect on the performance of Islamic mutual funds in Indonesia. Similar research was also conducted by Kusnandar & Sugiharto (2022), who found a negative relationship between interest rates and the performance of equity mutual funds. This indicates that interest rates are a key macroeconomic variable that needs to be considered in managing mixed mutual funds.

3. Proposed Method

This study uses a quantitative approach with the Partial Least Squares–Structural Equation Modeling (PLS-SEM) method, which was chosen because it is capable of testing causal relationships between latent variables that have complex characteristics and do not require a completely normal data distribution. All data analyzed came from official sources such as the Financial Services Authority, Bank Indonesia, and Bareksa, covering information on the performance of mixed mutual funds, the exchange rate of the rupiah against the US dollar, the BI 7-Day Reverse Repo Rate benchmark interest rate, and the global diversification composition of each product. The sample was determined using purposive sampling based on three main criteria, namely mixed mutual funds registered with the OJK from 2020 to 2024, consistently publishing performance reports, and having complete data on net asset value, returns, and portfolio details. The use of SmartPLS version 4.0 allowed researchers to test the measurement model to ensure the validity and reliability of each indicator before proceeding

to the structural model testing to evaluate the relationship between Global Diversification (X1), Exchange Rate (X2), and Interest Rate (X3) on Mixed Mutual Fund Performance (Y).

The variable constructs in this study were developed based on relevant empirical indicators, including four indicators for Global Diversification, two indicators for Exchange Rates, four indicators for Interest Rates, and four indicators for Mixed Mutual Fund Performance. Each indicator reflects the theoretical dimensions discussed in the literature review, ensuring that the model accurately represents the characteristics of the variables. The conceptual framework of the study maps the direction of the relationship between the variables tested through four hypotheses, namely the assumption of a significant influence of Global Diversification, Exchange Rate, and Interest Rate individually and simultaneously on the performance of mixed mutual funds. This analytical approach allows researchers to gain a deeper understanding of the multidimensional and dynamic factors that determine investment portfolio performance.

4. Results and Discussion

Description of Statistical Test Results

Table 1. Estimated Results of the Effect of Independent Variables on the Performance of Mixed Mutual Funds.

Hypothesis	Relationship Between Variables	Est. β	Std. Err	t-Stat	p-Value	Description
H1	Global Diversification → Mixed Mutual Fund Performance	0,438	0,425	1,031	0,302	Not Significant
H2	Exchange Rate → Mixed Mutual Fund Performance	0,726	0,240	3,029	0,002	Significant
H3	Interest Rate → Mixed Mutual Fund Performance	-0,047	0,067	0,691	0,490	Not Significant

Table 2. Simultaneous Testing Results of the PLS-SEM Model.

Independent Variable	Dependent Variable	R^2	t-Stat	p-Value	Description
Global Diversification, Exchange Rates, and Interest Rates	Performance of Mixed Mutual Funds	0,667	3,010	0,003	Significant

Table 3. Summary of Significance and Direction of Influence.

Variable	Direction of Influence	Significance	Implications
Global Diversification	Negative (–)	Not significant	Does not consistently improve performance
Exchange Rate	Positive (+)	Significant	Key determinants of mutual fund performance

Interest Rate	Negative (–)	Not significant	The impact was mitigated by the stock-bond composition

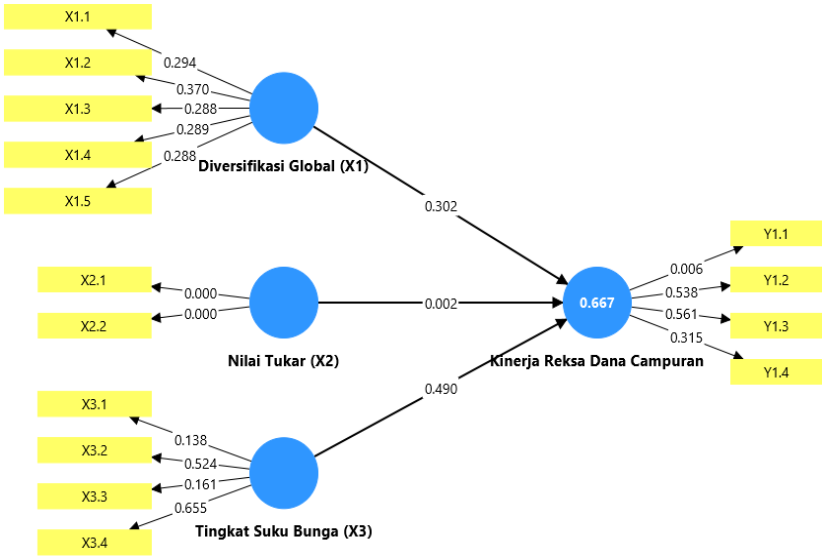

Figure 1 Analysis model using Partial Least Squares–Structural Equation Modeling (PLS-SEM).

Effect of Global Diversification on the Performance of Mixed Mutual Funds

The test results show that global diversification does not have a significant effect on the performance of mixed mutual funds, a finding that indicates that expanding portfolios into various global instruments has not yet been able to consistently add value to domestic investment products. This pattern aligns with findings that diversification benefits do not always emerge when global volatility is high and market correlations increase, causing international asset movements to no longer provide a balancing effect against domestic risks (Novita et al., 2019). This condition illustrates the reality that changes in geopolitical situations, trade tensions, and global monetary policy can reduce the effectiveness of cross-country asset allocation strategies. In such an environment, investment managers require a high degree of precision in selecting the appropriate global instruments to ensure that portfolio stabilization objectives remain achievable.

Another explanation for this insignificance is related to the exchange-rate risk that frequently accompanies global instruments and can erode return advantages when fluctuations move contrary to portfolio expectations, making foreign assets not always provide optimal contributions. Various studies on global portfolios emphasize that currency risk can diminish diversification benefits if hedging is not applied effectively or even increases investment costs (Opie & Riddiough, 2024). In Indonesia, the use of hedging instruments is still limited and selectively implemented by investment managers, making exchange-rate stability a determining variable in whether global strategies can work as expected. This phenomenon explains why global diversification is not directly reflected in an increase in mixed mutual fund performance.

Limited access to certain international instruments also becomes a factor that potentially reduces the contribution of global diversification to the performance of mixed mutual funds, particularly for products managed by investment managers with smaller assets under management. Various studies show that the benefits of global diversification are typically more easily achieved by institutions with high analytical capacity and advanced technology, especially in emerging markets that face regulatory and operational barriers (Attig et al., 2023). These obstacles prevent global portfolios from being utilized optimally, as selecting international assets requires deep data, cross-country research expertise, and strong risk-management systems. This situation reflects that the quality of investment management is a critical factor in determining the success of global strategies.

These findings are consistent with studies showing that diversification benefits are highly influenced by phases of the global economic cycle, causing strategies that are effective

in stable periods to lose effectiveness when uncertainty rises (Khaddafi et al., 2025). Under conditions of high global uncertainty, international markets may move uniformly, making global portfolios more vulnerable to external shocks. This situation in Indonesia may be worsened by the sensitivity of mixed mutual funds to foreign capital flows, resulting in both domestic and global portfolios facing similar pressures when investment sentiment deteriorates. This influence indicates that international diversification is not always a stabilizing tool, particularly when the global environment becomes increasingly interconnected and vulnerable to systemic stress.

Previous studies in Indonesia also show similar patterns, in which diversification into foreign markets does not consistently enhance mutual fund performance, especially in mixed funds that have diverse asset compositions (Aprillia et al., 2018). This condition illustrates that the success of global strategies relies heavily on investment managers' ability to select assets that effectively reduce risk, rather than merely expanding the geographical coverage of the portfolio. The dynamic nature of the domestic market also affects the success of international strategies, as when the local market is experiencing positive momentum, the contribution of global assets is often overshadowed by the performance of domestic instruments. This pattern provides an understanding that global diversification is not the main determinant of mixed mutual fund performance, making the insignificant test results theoretically and empirically acceptable.

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Effect of Exchange Rate on the Performance of Mixed Mutual Funds

The exchange rate shows a positive and significant effect on the performance of mixed mutual funds, a finding that indicates exchange-rate fluctuations have a strong ability to drive or restrain portfolio returns. When the rupiah weakens against foreign currencies, the value of foreign assets held by mutual funds increases in rupiah terms, providing additional gains for investors (Annisa et al., 2025). This phenomenon aligns with international portfolio theory, which states that exchange-rate movements may serve as a source of return or risk depending on market conditions and the direction of currency changes. The results of this study strengthen the understanding that the exchange rate is an important indicator in managing mixed mutual funds, especially when portfolios have exposure to global instruments or assets that are sensitive to currency movements.

This relationship aligns with numerous studies finding that the exchange rate plays an important role in determining capital flows, portfolio stability, and investor risk perception, making each currency change directly affect the value of financial assets in Indonesia (Fauzi & Wijoyo, 2025). During periods of high volatility, stock and bond markets often respond simultaneously to exchange-rate movements, causing mixed mutual funds to be affected by exchange-rate dynamics. When external conditions pressure the rupiah, global investors increase risk aversion, causing foreign capital flows to exit and impact domestic asset prices. This situation shows that the exchange rate influences not only global assets in the portfolio but also the entire structure of the domestic financial market.

The significant findings indicate that investment managers must have adaptive strategies toward currency risk, particularly for mixed portfolios that combine instruments with different sensitivities to exchange-rate movements. Several equity instruments in export-oriented sectors usually benefit when the rupiah weakens, while companies dependent on imports face cost pressures, creating cross-effects that must be carefully managed (Setyani & Gunarsih, 2018). At the same time, government and corporate bonds may experience yield fluctuations triggered by changes in market sentiment toward currency risk. This combination shows that the exchange rate has broad effects that spread across various instruments within mixed mutual fund portfolios.

Other studies also show that the exchange rate is closely related to NAV movements of mutual funds, as investors tend to react to currency changes more quickly than to other macroeconomic variables (Prasetyo et al., 2019). Exposure to exchange-rate risk becomes greater when global markets show instability, making currency movements dominate the influence of other fundamental factors. Even for portfolios without foreign assets, the exchange rate still plays an indirect role through changes in commodity prices, production costs, and the performance of listed issuers. This situation shows that the sensitivity of mixed mutual funds to the exchange rate is highly relevant to analyze under various market conditions.

The results of this study confirm that the exchange rate is a principal determinant of mixed mutual fund performance during the observation period, considering its influence spreading simultaneously to equities, bonds, and global instruments. When currency volatility

rises, portfolios with foreign exposure may gain exchange-rate advantages, while domestic portfolios undergo price adjustments that reflect changes in market risk perception. This aligns with findings that Indonesia's capital market is quite sensitive to currency fluctuations, making it necessary for investment managers to consider exchange-rate positioning in asset-allocation strategies (Mulianta Ginting, 2013). These findings clearly illustrate that the exchange rate has a strategic role in determining the success of mixed mutual fund management.

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Effect of Interest Rates on the Performance of Mixed Mutual Funds

Interest rates do not show a significant effect on the performance of mixed mutual funds, a result that reflects how the combination of equity and bond instruments in the portfolio is able to withstand the direct impact of interest-rate changes. In mixed mutual fund structures, bond components tend to be sensitive to rising interest rates due to price declines, while equities exhibit more complex dynamics influenced by expectations of corporate growth (Kautsar et al., 2025). When these instruments are combined in one portfolio, the effects of rising or falling interest rates may balance each other out, thus not appearing as significant changes in performance. This pattern helps explain why statistical tests show insignificance.

Various studies state that mutual fund sensitivity to interest rates varies depending on the proportion of fixed-income instruments, making mutual funds with larger bond compositions more responsive to monetary-policy changes (Roikhatul Jannah et al., 2024). In mixed mutual funds, this composition does not dominate, as a portion of assets is allocated to equity instruments, reducing the interest-rate impact compared with fixed-income mutual funds. In stable economic conditions, changes in Bank Indonesia's benchmark interest rate also do not always trigger drastic price changes in short-term bonds that are commonly part of mixed portfolios. These combined factors illustrate that mixed mutual funds possess a certain resilience to interest-rate fluctuations.

The insignificance of interest rates may also be explained by investment managers' tendency to adjust bond-portfolio duration to reduce yield-change risk, enabling the interest-rate effect to be minimized through duration-management strategies. This strategy allows the portfolio to remain at an acceptable volatility level even when interest rates rise or fall gradually (Sukarno & Herlianto, 2022). In mixed mutual funds, duration management is conducted more flexibly because equity portfolios serve as sources of additional potential returns when the bond market faces pressure. This flexibility means that interest-rate changes do not always significantly affect the overall value of the portfolio.

Several studies in the Indonesian market context show that interest rates are not the sole factor influencing the NAV of mutual funds, as investors often give greater attention to stock market conditions and rapidly changing global sentiment (Mawikere, 2021). In certain situations, capital-market movements are driven more by expectations of economic growth and foreign capital flows than by gradual domestic interest-rate changes. This condition shows that interest-rate variables play a more moderate role in mixed mutual funds compared with fixed-income mutual funds. Accordingly, the low influence of interest rates in this study reflects the natural structure of mixed portfolios.

The insignificance of interest rates reinforces the understanding that mixed mutual fund performance is more influenced by variables related to changes in global asset values or broader external factors, such as exchange rates and international market conditions. Interest-rate movements in Indonesia were also relatively stable across several periods, preventing substantial portfolio changes that could significantly affect performance. This is supported by research identifying external variables such as exchange rates and global market conditions as primary drivers of mutual fund performance (Ciminelli et al., 2022). These findings suggest that interest rates were not a dominant variable in determining mixed mutual fund performance during the study period.

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Simultaneous Effect of Global Diversification, Exchange Rate, and Interest Rate on the Performance of Mixed Mutual Funds

Simultaneous testing shows that the three independent variables collectively explain 66.7 percent of the variation in mixed mutual fund performance, a figure that illustrates the combined contribution of macroeconomic factors and portfolio strategies in determining investment outcomes. The relatively high R^2 value indicates that the model possesses strong predictive characteristics and is relevant to portray the dynamics of mutual fund performance in Indonesia. When exchange rate, interest rate, and global diversification are analyzed simultaneously, these variables interact and exert combined effects on portfolio performance.

This aligns with investment-management principles stating that external variables do not operate independently in influencing investment results.

This strong simultaneous contribution is largely influenced by the exchange-rate variable, which shows high significance in the model, while the other variables function as supporting factors that shape the portfolio's overall risk structure. The interconnected nature of global markets makes exchange rates a dominant indicator for financial markets in developing countries, including Indonesia (Sialm & Zhu, 2024). When exchange rates fluctuate, portfolios containing global and domestic instruments respond simultaneously through price changes and capital flows. This phenomenon explains why simultaneous effects produce a high R^2 value even though the influence of individual variables differs.

Global diversification in the simultaneous model plays a more moderate role because its contribution is not direct, operating mainly through its relationship with international market volatility and currency risk, making its role appear small but still relevant in mixed portfolios. When global markets exhibit uncertainty, the effects spread throughout the entire portfolio structure, especially in equity instruments that are sensitive to external sentiment (Converse et al., 2023). This makes global diversification maintain a strategic function even though its contribution is not always statistically significant. Such indirect roles illustrate that global variables remain important in supporting the simultaneous model.

Interest rates in the simultaneous model are also found to play a lower role compared with exchange rates, as their effects tend to blend with broader capital-market dynamics and economic policies. International studies show that interest-rate changes often have delayed effects on investment instruments, particularly in emerging markets that are more sensitive to external factors (Umoru et al., 2024). In mixed mutual funds, their low sensitivity to interest rates makes this variable less dominant in the simultaneous effects but still functioning as a macroeconomic element shaping portfolio-movement patterns. This phenomenon reflects the complementary nature between interest rates and other variables in explaining variations in mutual fund performance.

The results of the simultaneous testing provide a comprehensive understanding that mixed mutual fund performance is influenced by a combination of macroeconomic factors and portfolio strategies operating concurrently, rather than a single variable alone. The exchange rate is proven to be the most dominant variable, while global diversification and interest rates contribute supportively to strengthen the model structure. These findings align with research stating that Indonesian mutual-fund performance is greatly influenced by external factors with broad reach, particularly for mixed portfolios that are sensitive to various instruments (Vidal & Vidal-García, 2023). The results emphasize the need for investment managers to pay attention to global conditions and macroeconomic dynamics simultaneously when formulating mixed-portfolio management strategies.

5. Conclusions

This study shows that the performance of mixed mutual funds during the 2020–2024 period is influenced by a combination of strategic and macroeconomic factors, with exchange rates being the variable that has the strongest and most significant influence on changes in portfolio value. Global diversification proved to have no significant effect, suggesting that international exposure has not contributed to stable mutual fund performance, especially when global volatility increases and exchange rate risk is not fully hedged. Interest rates also had no significant impact, indicating that mixed portfolios are able to withstand the effects of monetary policy changes through a balance between stocks and bonds. These results confirm that market sensitivity to external factors, particularly exchange rates, is more dominant than portfolio strategy variables and interest rates.

Simultaneous testing produced an R^2 value of 0.667, indicating that the three independent variables collectively have a strong ability to explain the performance of mixed mutual funds, while the rest are influenced by other factors outside the model. This value illustrates that investment managers need to pay close attention to changes in exchange rates and external conditions that could potentially affect capital flows, market volatility, and financial instrument prices. These findings suggest that mixed mutual fund management requires an adaptive strategy that combines an understanding of global dynamics with the creation of a portfolio that is responsive to exchange rate risk, while maintaining a balance of instruments to withstand interest rate fluctuations. The overall results of the study provide an analytical basis for strengthening more effective investment strategies based on mapping the external factors that most influence the performance of mixed mutual fund products.

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