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Mutual Funds in Romania in 2010

Loredana-Ioana Pribac[1], Oana Nicoleta Bucur[2]

[1]*Universitatea de Vest Timişoara, Facultatea de Economie şi de Administrare a Afacerilor, pribacloredana@yahoo.com*

[2]*Universitatea de Vest Timişoara, Facultatea de Economie şi de Administrare a Afacerilor, oana.bucur28@yahoo.com*

Abstract:

The purpose of this paper is to analyse the situation of mutual investment funds in Romania, in the context of the year 2010, when Romania is a member state of the European Union and in the midst of a financial crisis. In the analysis done we've used the statistical data regarding the evolution of investments in mutual funds done in Romania during the last few years. The main conclusions are: the market ratio in the beginning of the year 2010 is in favour of the diversified funds; certain bond funds surpassed the yields of the bank deposits, and the share funds had yields of 100% in 2009, but drew a small number of new investors.

Keywords: *share fund, bond fund, diversified funds*

1. Introduction

The FNI (National Investment Fund) case put the market of investment funds into an extremely unfavourable light. Today's funds have nothing in common with that blurred time. At present, the activity of the funds is regulated and the National Committee of Securities (NCS) is enabled to monitor the market of mutual investment funds. In order for an investment management company to work it must primarily be authorized by the NCS. This way, the company must meet a number of prudential conditions, among which the existence of some proper administrative and accountancy procedures, procedures of control and security for the internal processing of data and to have proper mechanisms of internal control. There must be adequate measures which enable the separation of the financial instruments belonging to investors from the ones of the management company. And the organisational structure of the company must minimize the risk of conflict of interest between the management company and the investors. Nowadays, the assets of the funds are kept by a credit institution authorized by the National Bank of Romania (NBR), called depositor, which gives investors extra safety. The rules according to which the investment funds in Romania work are now similar to the ones in the European Union.

2. The mutual investment funds

The mutual or open end investment funds draw financial resources from the population and from companies. They invest these resources into different financial instruments, such as shares, bonds or government securities. When one makes an investment in a mutual fund one buys fund units. These are the equivalent of shares in a joint-stock company. But, unlike shares which are issued in a limited number, fund units are issued continuously and may be bought any time. Participation in a mutual

fund is attested by a certificate which confirms the possession of fund units. The value of the fund unit is set daily, being calculated as ratio between the net value of the fund assets and the number of fund units issued.
People who invest in mutual funds get a win when the value of the investments done by the fund increases. This occurs when the fund collects dividends or interests for the investments made and when the value of the purchased shares grows. On the other hand, it is likely that there occur drops in the portfolio and this way the investors could lose the money invested.
Mutual funds are entities without legal personality, which have the only purpose of drawing financial resources and making investments in liquid financial instruments. According to the laws, funds are managed by companies especially created for this purpose, called asset management companies (briefly called AMC). These decide how the money of the fund should be invested and manage at the same time the relation between the fund and the investors. More specifically, the management company keeps the record of the fund unit holders, collects the incomes, issues and repurchases the equity securities.

For these services, the company charges a number of fees and tariffs, which are charged from the incomes of the fund.
Another entity involved in the activity of mutual funds is the depositor. This can only be a credit institution (a bank or co-operative credit organisation which has the role to keep all the assets of the funds. Besides, the depositor has the task to daily certify all the net assets of the fund and the number of fund units issued. With the help of these data, one establishes the value of the fund unit, which one buys and repurchases with every day the securities issued by the fund.

The investment funds are divided into two big categories like this:
- *Open end funds or UCITS* (Undertakings for Collective Investment in Transferable Securities)
- *Closed end funds* (non UCITS) (Marquis, 2009).
Nowadays the industry of funds in Romania comprises both categories of funds. According to the classification used by the Collective Placement Organisms (CPO), organisms of collective investment can be:
- Organisms of Collective Placement in Mobile Values (OCPMV) - where all funds are open end
- Other Collective Placement Organisms (OCPO) - where also closed end funds are included.
The main difference between the open end and the closed end investment funds relies in the way in which the issuing of the "fund units" is organised, so that the open end funds have a permanent issuing (during the entire existence of the fund) of fund units, unlike the closed end ones which do not have a continuous issuing and address a limited number of investors.

One of the elements which make the mutual funds be different is the way in which they invest in companies of a certain size, companies classified according to the market capitalisation as follows:
-large capitalisation, mutual funds which buy shares with a capitalisation over 10.9 billion $
-average capitalisation, between 2.5 billion $ and 10.9 billion $
-small capitalisation, below 2.5 billion $
Mutual funds are classified by the National Committee of Securities (the authority which monitors and regulates mutual funds) according to the category of financial instruments which they invest in:
- *Monetary fund*: lowest risk; 90% of the money is invested in bank deposits and government securities and about 10% in bonds.
- *Bond funds* and instruments with fixed income: low-medium risk; 90% of the money is invested in monetary instruments and bonds and maximum 10% in shares.
- *Diversified funds*: medium-high risk; balanced investments with 55% investments in monetary instruments and bonds and maximum 45% in shares.
- *Share funds*: high risk; over 45% of the money is invested in shares.

The share funds invest the most in shares listed in the exchange, issued by different companies. If the company is profitable, the investors win by the fact that the value of the shares increases and/or the company distributes dividends to the shareholders. But, in case the company has losses, the investors can loose the entire value invested. When somebody buys units in a mutual fund, that person automatically becomes shareholder in the companies which the fund invested in. The investments in shares proved along the time to be the quickest way to increase the financial wealth. At the same time, the stock quotations often have considerable drops; this way, with these funds, the win possibilities are the highest, but the loss risk is also the highest. The relation between the expected yield and the risk taken represents the basic scheme, according to which mutual funds work. A useful indicator for assessing the risk of a share fund is the proportion of investments in shares out of the total of the portfolio. The higher the percentage, the higher the risk.

The bond funds invest mostly in bonds. A bond is a paper similar to a loan. When bonds are bought, the money is lent to a company or municipality, called issuer. The latter binds itself to reimburse in due time the entire value loaned and pays each year the interest during the entire lifespan of the bond. Just like shares, these papers can be listed in the exchange. The difference is that the units issued by the bond funds have a more stable value from one day to the other and give investors wins on a regular basis. Bond funds are not deprived of risks. One of these is the interest risk. If the bond is issued with a fixed interest (as it happens most of the time), then its value will decrease when the interest rates on the monetary market grow. Vice-versa, when the interests of the market decrease these bonds increase their value. By the contrary, if the bond pays a variable interest, its value will evolve in the same direction with the market interests. The longer the reimbursement term, the more the market value depends on the evolution of the interests.

Monetary funds invest mostly in instruments of the monetary market, mainly in bank deposits and government securities. Of all funds, these are the safest because of the low degree risk investments that they make. They are recommended when investors set financial targets for short term and try to keep the value of their invested money and at the same time to get an income.

The advantages of investing in a mutual investment fund are the following:
-money is managed in a professional way, a specialised team makes the decision to buy and sell, based on thorough analysis;
- portfolio diversification – one makes investments in different papers, and each investor of the fund owns a percentage of all these investments; according to the number of fund units owned, the diversification of investments leads to a decrease of the risk;
- the possibility to withdraw the money at any time – mutual funds have the legal obligation to accept any time the repurchase of the issued papers;
-capitalisation represents the win brought by an investment; a long time capitalisation leads to the increase of the value of the initial investment, and so the sooner you invest, the quicker the value of your investment increases;
- you may start with low value investments, even with 100 lei, the minimum sum being the value of a fund unit;
- transparency – the investment funds make known the investment targets and the risks taken by the investors; all features of an authorized fund are presented in the issuing booklet of the fund and from time to time this makes known regular reports on the activities developed;
- starting with the year 2009 the wins from investments in mutual funds are no longer taxed.

The money collected in the investment funds are investments made in: spare cash; bank deposits; government securities; deposit certificates; traded shares (BVB or external markets); (non)traded municipal bonds; (non)traded corporative bonds; non-traded shares; other assets.

Investments in mutual funds *are not guaranteed by the state*, and mutual funds do not participate in the guarantee fund of bank deposits. Investments in mutual funds thus have a higher degree of risk from this point of view than a bank deposit of a natural person having a value within the guaranteed limits. When investing in a mutual fund there is the risk that the yield is not as expected and there's the risk to lose the initial, partial or entire sum invested. Also, one cannot leave out the legal risk because it is possible that some legal constraints occur, which could lead to the decrease of the fund units value or to the cancellation of their repurchase by the fund.

3. Romania's situation

Table 1 *„Among the biggest gains in 2009"*

Name and type of fund	Value at 29.01.09	% 2010	% 2009	Cost index (%)	Assets structure	Administrator
Active Dinamic (share fund)	12,35	1,81	101,50	1,06	81,9% - shares; 12,6% - bank deposits / certificates of deposit; 5,4% - other assets	Swiss Capital Asset Management
Raiffeisen Actiuni (share fund)	35,19	9,48	70,83	0,37	86,9% - shares; 11,2% - other assets; 1% - derivatives; 0,8% - bank deposits / certificates of deposit; 0,1% - cash	Raiffeisen Asset Management
BT Maxim (share fund)	7,89	8,67	62,78	0,29	81% - shares; 2,5% - bank deposits / certificates of deposit; 2,4% - bonds; 0,5% - cash; 0,2% - other assets	BT Asset Management
Carpatica Stock (other funds)	13,48	8,44	56,39	0,45	54,54% - shares; 16,9% - other assets; 16,89% - bank deposits / certificates of deposit; 11,67% - treasury	Carpatica Asset Management
Raiffeisen Prosper (share fund)	89,74	4,40	55,62	0,35	47,3% - other assets; 43,2% - shares; 7,8% - bonds; 1,8% - depozite bancare / certificate de depoz bank deposits / certificates of deposit; 0,02% - cash	Raiffeisen Asset Management

Source: http://www.financiarul.com accessed on 20.06.2010

The Index of the Mutual Funds (IMF), calculated based on the unitary value evolution of the net asset of the 19 open end investment funds in the Association of Fund Administrators of Romania, reported an increase of 16,73% in 2009, exceeding by over 90% the average interest given for the lei deposits. In 2010, the estimation of IMF was around the value of 1,15%. If in 2008 bond funds exceeded share funds in what concerns the yield, the share funds returned to the top in 2009. Considering the evolution from 2009, in the top of the mutual funds of Romania there can be found the following share funds: Active Dinamic (+101,5%), Raiffeisen Actiuni (+70,83%) and BT Maxim (+62,78%), as indicated in Table no. 1 above. The efficiency reached by these exceeds even the increase of the composite index number of the stock market (BET-C) of 58,23%. According to the evolution of this year, the highest efficiency was held by these funds: Raiffeisen Actiuni (+9,48%), BCR Expert (+8,75), BT Maxim (8,67%) and Carpatica Stock (+8,44%). While in 2009 all mutual funds analysed had a positive evolution, the year 2010 began with drops for two of them: Investica Altius (-38,73%) and Raiffeisen Euro Plus (-1,64%). And the performers of last year had mixed evolutions in the beginning of this year: if Raiffeisen Actiuni and BT Maxim stay on the first three positions, Active Dinamic presents a modest assessment of 1,81%, though exceeding the evolution IMF.

The obligation funds also succeeded in having higher efficiency than the interest got for a bank deposit, but not in all cases. The win would have been up to 18%. BRD Concerto is the best bond fund having an efficiency of 17,7% in 2009, followed on the second and third position by the funds BCR Obligatiuni (14,5%) and Al Orizont (14,3%). The lowest efficiency was owned by the fund Al Tezaur (7,3%). The choice of a diversified fund as investment in 2009 could have brought greater wins. The most efficient funds of this kind managed to get a turnover more than twice as big as compared to what the average interest for the bank deposits in lei was. The diversified fund which brought the highest efficiency was Raiffeisen Benefit (33,5%), the dais being completed by the Transilvania (26,7%) and BT Clasic (25,7%) funds. Al Capital Plus had the poorest performance, registering an efficiency of 7,8%.

The share funds had an efficiency of over 100% during the last year when the stock market recovered, but couldn't attract more than about 200 new investors, whereas the monetary funds having an efficiency of maximum 15%, drew thousands of investors.

Last year, when BET - the main stock index appreciated by over 60%, and the mutual funds had an efficiency of up to 101,5%, as in the case of the Active Dinamic fund, there were few investors who could benefit from these performances.

In what concerns the market ratio in the end of March 2010, the diversified funds have the highest ratio (35,9%), followed by the share funds (34,2%), then the monetary funds (19%) and in the end the bond funds (10,2%).[1]

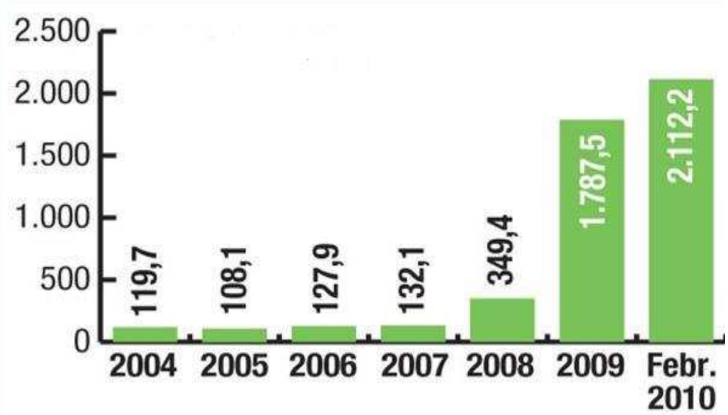

Figure 1 „*Monetary fund assets value (mil. Lei)*”

Source: http://www.capital.ro accessed on 18.06.2010

[1] www.bankingnews.ro accessed on 20.06.2010

In Figure no. 1 above one can notice that assets value of the monetary funds has risen starting with the year 2004 and until February 2010. This proves that starting with 2008 investors preferred instruments with the lowest risk degree.

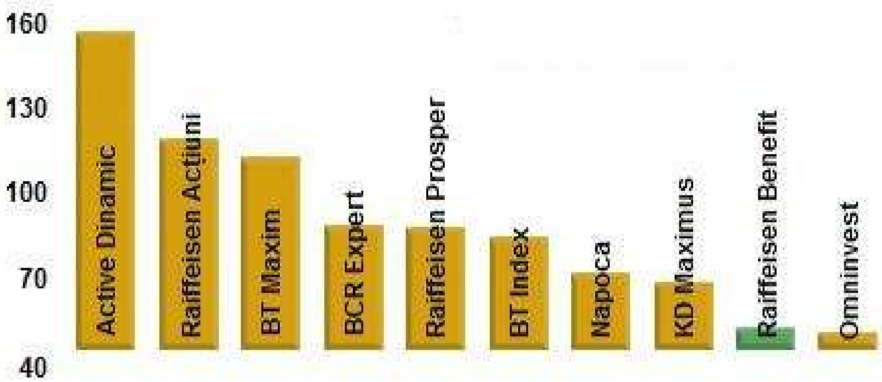

Figure 2 *„Evolution of stock and bond funds (%) in January-April 2010"*

Source: http://www.capital.ro accessed on 06.07.2010

The assets of the open end investment funds reached in the end of the first quarter a historical maximum of 4,29 billion lei, that is over one billion euros. The increase was done by the net incomings of almost 800 million lei of the first three months of the year, a sign that the investors prefer more and more investments to bank deposits.
In Figure no. 2 above one can notice that the funds with investments in shares dominated the market, the highest profit exceeding 150%, which represents a significant recovering of the losses in 2008.

4. Conclusions

The market ratio in the beginning of 2010 is owned by diversified funds; certain bond funds exceeded the efficiency of the bank deposits and share funds succeeded in having an efficiency of 100% in 2009, but they drew a small number of new investors.

In the context in which the efficiency of the bank deposits is decreasing, the mutual funds market will continue to grow. And keeping the shares listed in the exchange on an increasing line may draw more people who could invest in this kind of funds.

The asset value of all funds represents less than one percentage of the GDP, one of the smallest in Europe, where the average is over 10%.

While the inhabitants of other countries of the European Union invest 10% of their savings in mutual funds, Romanians are more sceptical, investing only 1,5% of their financial assets in this kind of instruments.

5. Acknoledgements

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