ISSUES OF MUTUAL FUNDS IN ROMANIA

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Abstract:
The purpose of this paper is to present some theoretical issues of mutual investment funds in Romania, a member state of the European Union, and to analyse their situations in this difficult financial moment. In this analysis we have used statistical data concerning the evolution of investments in mutual funds done in Romania during the last few years. The main conclusions are as follows: certain bond funds surpassed the yields of the bank deposits, and the money-market funds had an important rise in 2010.

Key words: *equity fund, bond fund, diversified funds, money - market fund*

JEL classification: *E22, O16, G11, G23*

1. Introduction

The FNI (National Investment Fund) case put the market of investment funds into an extremely unfavorable 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. 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.[1]

2. The mutual investment funds

Open end funds are organized as civil societies, without legal personality, as collective investment instruments, attracting financial resources from individuals and companies, they invest these in various financial instruments, such as shares (non)-traded, municipal bonds (non-)traded, corporate bonds (non-)traded, and available on demand deposits, certificates of deposit or other assets.

[1]Pribac, Loredana Ioana, Bucur, Oana Nicoleta (2011) *Mutual Funds in Romania in 2010*, EuroEconomica Nr. 1(27) 2011, ISSN: 1582-8859, p. 62

"A fund drive is a net retention of a capital asset fund, being issued in dematerialized form and giving equal rights holders. It is otherwise not transferable and will not be entered in a stock exchange listing."[2]

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 share 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.

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.[3]

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 share.
- *Diversified funds*: medium-high risk; balanced investments with 55% investments in monetary instruments and bonds and maximum 45% in share.
- *Equity funds*: high risk; over 45% of the money is invested in share.

3.The advantages and the risks of mutual funds

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;
- mutuality – investors, regardless of investment size, enjoy equal rights and obligations. In addition, because funds invest more than small investors means better investment conditions (commissions paid by fund managers to banks or for transactions on the stock exchange, are substantially lower than those paid by an individual);
- you may start with low value investments;
- 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.

[2] Cazan, Emil, Cuzman, Ioan, Dima, Bogdan, Eros-Stark, Lorant, and Fărcaş, Pavel (2004) *Management of securities portfolios* p. 21

[3] www.aaf.ro accessed on 18.12.2010

Investors should support amounts necessary to fund payments in their earnings, main categories are: management fees and storage, show and advertising expenses, audit.

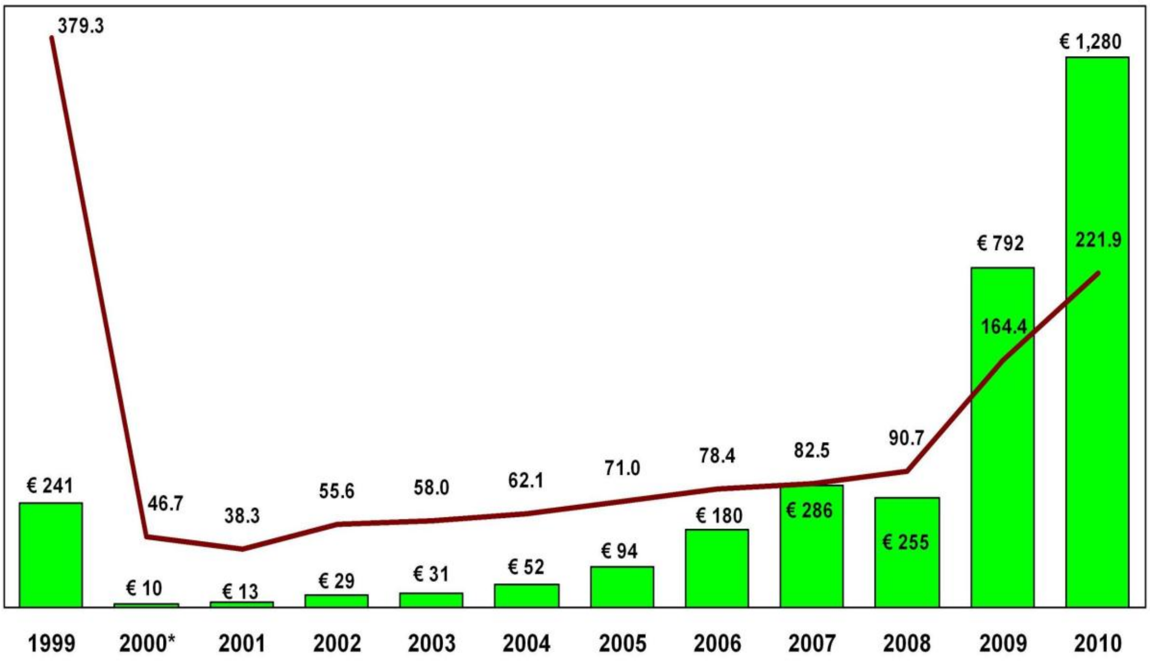
Mutual funds expose investors "risk management" - fund manager to obtain weak results.

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.

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

If in 2008 bond funds exceeded equity funds in what concerns the yield, the equity 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 equity funds: Active Dinamic (+101,5%), Raiffeisen Actiuni (+70,83%) and BT Maxim (+62,78%). The efficiency reached by these exceeds even the increase of the composite index number of the stock market (BET-C) of 58,23%.[4]



The year that crashed FNI
Green – Asset (mil. euro)
The line – Number of investors (in thousand)

Figure no.1 *"The evolution of mutual funds in Romania"*

Source: www.businessday.ro accessed on 20.02.2011

[4] www.financiarul.com accessed on 25.01.2011

The obligation funds also succeeded in having higher efficiency than the interest got for a bank deposit, but not in all cases. 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%.[5]

In 2009 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.[6]

In Figure no. 1 we can see at the end of 2010, total assets held by investment trusts was EUR 1,280 million, increasing by 63.4% over the end of 2009, and the number of investors increased by 35%, from 164,446 to 221,862.[7]

Evolution for mutual funds in 2009-2010:

- ***money-market funds*** holding assets of 3.06 billion lei (56%), increasing by 71% from year-end 2009. The number of investors are 110,000 or 50% of the total.
- ***bond founds*** holding assets of 0.95 billion lei (17.3% of total), increasing by 30.3% in the last 12 months. The number of people who have invested in this fund are 36 156 (16.3% of total).
- ***balanced funds*** have total assets worth 0.3 billion lei (+14.2% compared to December 2009) and nearly 53,000 investors.
- ***equity funds*** have assets of 0.22 billion lei (+20.4%) and a total of 12,318 investors.

Conclusions

Advancement that have registered mutual funds last year is significant, but it may take several years until the number of investors will again reach the level recorded in 1999, before the collapse of the FNI.

In 2009 those which gained the most were equity funds.

In 2010, monetary funds have managed to grow by 71% compared to 2009, accounting for more than half of total assets.

Yet, compared with other European Union countries, Romanians are more skeptical, placing instruments of this type in a smaller percentage of financial assets.

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[5] www.aaf.ro accessed on 20.01.2011
[6] www.zf.ro accessed on 15.12.2010
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