

THE PERFORMANCE OF INVESTMENT FUNDS IN ROMANIA IN THE CONTEXT OF CRISIS

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Romania as an emergent country has an underdevelop stock markets which is strongly connected with the markets from Western Europe and the US, so the Romanian Stock Market was one of the first market touch by the wave of financial crises. We analyze the investment fond performance during 2007-2009 opposite to an appropriate benchmark the BET Index. The analyse

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1.Romanian Investment Funds

Romania has an emergent stock market- taking into consideration the fact that Bucharest Stock Exchange (BSE) has reopened its gates in 1995- that's why this kind of investment is out of reach to the masses. Based on the 24/1993 act, in November 1993 the Mutual Fund for the Business People (MFB)is established³⁷⁷ (administrated by SAFI);these first funds had a direct investment policy in all sorts of companies and the formula for calculating the value of the fund's units was not regulated which led later on to famous bankruptcies (MFB, NIF) in the field and further on to the lack of confidence in this type of investment . In order to reinforce the financial markets in our country and especially the capital market the 297/2004 act regarding the Collective Investment Institutions (CII) was enacted. The CII can be split into two categories: investment funds and investment societies; the most important provisions refers to the organizational and functional aspect of the CII and also an important part is dedicated to the financial instruments in which the funds could invest³⁷⁸. The authority that regulates and monitorizes the capital market and the CII is The National Securities Commission (NSC); it authorizes the establishment of new investment funds and of the society that administrates the fund , the launch of a prospectus as well as the functional aspect of the fund. Also in 1996 , besides the N S C , the National Association of Funds Administrators was established; this association is a non governmental organization made up of 21 investment administration societies that administrates 50 opened investment funds and 8 closed investment funds, 5 investment societies and 2 depository banks³⁷⁹; the association has a series of goals : enforcing the capital market, promoting the concept of collective investments, forming and developing the organizational, legal and professional frame; to enhance the access to information for the investors and also for the masses .

In order to function, the open investment funds in Romania need three entities:

- the administration society, that adopts the decisions regarding the investment fund and manages the investment portfolio
- the depositor, who safely guards all the funds assets and calculates the value of the bonds (securities) independent of the administration society

377 After The History of Mutual Funds in Romania, <http://ifr.kmarket.ro/documentare/arhiva/evolutie.html>.

378 Especially after the adoption of Directive 2007/16/CE, which adds a complement and clarification of Law 297/2004.

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- the distributor: it can be a securities company or a commercial bank, and it has the role to sell the securities.

The open investment funds issue the securities that confer their owners' equal rights and are paid when subscribing. The security is bought at the issuing price, established from the net assets plus some commissions and could be rebought at the owners' request. The rebuying price is made out of the unit value of the net asset calculated by the administration society and certified by the depositor. The unit value of the net assets is calculated daily by reporting the net value of the funds assets to the total funds' units in circulation.

The funds' investment policy is established by the administration society according to the law and the prudential conduct. According to the law, the open investment funds can invest in :

- exchange securities and other monetary markets' instruments in Romania and UE and with the approval of the NSC even in non-member states.

- bonds issued by other collective investment institutions (opened or closed)

- deposits

- derived financial instruments

- other monetary markets' instruments.

The investment funds can be classified according to the liquidity and the risk of the investment³⁸⁰:

1.Stocks funds; they invest preponderantly in listed stocks; minimum 66 % in stocks

2.Bonds funds; they invest maximum 10 % in stocks and the rest in bonds.

3.Mixt funds.They invest maximum 66% in stocks, the rest in non risky securities; they have a medium risk and are considered to be medium and long term investments.

4.Monetary funds. These are considered short term investments, having benefits comparable to the interest rates for bank deposits; they invest in monetary instruments (treasury bonds, deposits, etc) more than 90 % and just 10 % in stocks.

5.Other funds- investment funds that invest in lower exposed stocks than that of the stocks funds.

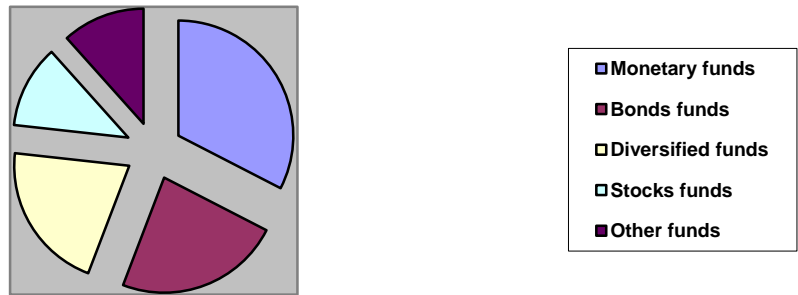
2. The evolution of the investment funds in Romania (2004 – 2009)

After a recession period caused by the serious frauds on the mutual investment funds the years 2000 – 2001 are known for the decrease of the investors in this area ; the next years consolidate the field and new important players appear on the market RDB, RCB; and the enactment of the 297/2004 act creates the legal frame for the accurate functionality of the investment funds.

It stands out from figure 1 that the year 2009 has brought a substantial growth to the monetary and bonds funds (low risk funds), these holding a share of 70 % in comparison with 30 % in 2007; in the mean time the high risk funds hold a share of 30 % , as to 70 % in 2007. These evolution could be explained by the negative evolution of BSE in 2008-2009; the losses in the stock exchange area determine the investors to reorient to some low risk funds. Over the analysed period one can state that the year 2008 brings on an important growth to the monetary and bonds funds and at the same time a decline for the stocks funds.

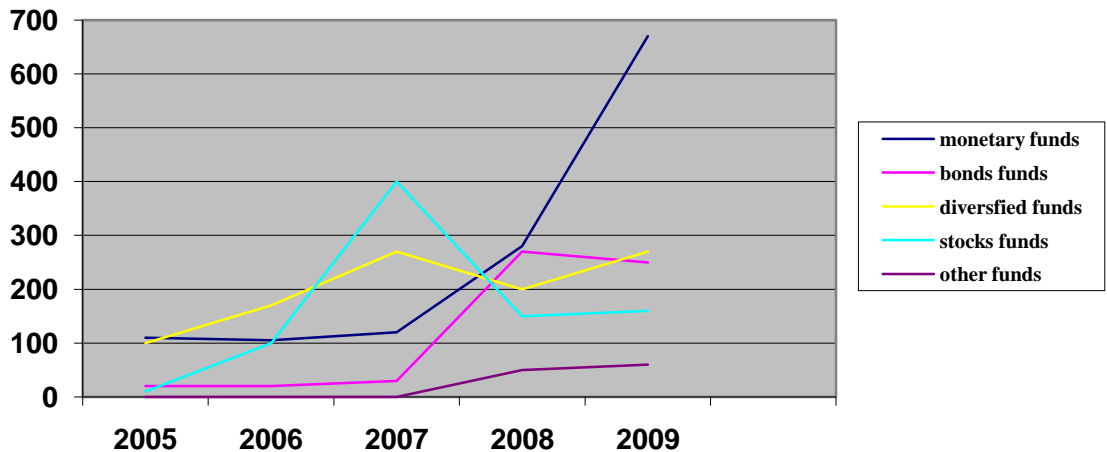
380 After Angela Maria Filip – The Evaluation of the Performance of Mutual Funds in Romania, Printing House House of Science Book, 2008, pg. 130

Fig 1. The investment funds market share in April 2009³⁸¹



At the same time, if we follow the 2004-2009 period, it is noticeable that the year 2005 is the year in which the investment funds with medium to high risk (stocks funds and diversified funds) surpass from the net assets point of view the investment funds with low to medium risk (monetary and bonds funds).

Fig 2. The evolution of the net assets of the investment funds between 2004-2009³⁸²



In order to follow the performance of the investment funds, the Mutual Funds Index ³⁸³ (M. F.I.) was launched; a similar index to once used on the B S E. The MFI is calculated based on the evolution of the net unit value of the net assets of each fund included in the index basket; the method is that of a weighted average³⁸⁴ :

381 Datasource www.aaf.ro, own diagram.

382 Datasource www.aaf.ro, own diagram.

383 Launched by www.kmarket.ro and assumed by The Managers of Funds Association in Romania

384 <http://ifr.kmarket.ro/documentare/arhiva/ifm.html>

$$IFM_k = \sum_{i=1}^N \left(\frac{C_k^i}{C_0^i} \times \frac{A_0^i}{A_0^T} \right) \times 1000$$

Where:

- IFM_k - the indexes value in the k day (M F I)
- C_k^i is the unit value of the funds' net asset in the k day
- C_0^i is the unit value of the i funds' net asset in the reference day
- A_0^i is the funds' net asset in the referece day
- A_0^T is he total assets in the reference day
- N is the number of funds included in the index basket
- 1000 is the indexes multiplier

We will compare th eevolution of the monthly performances of the MFI with the that of the synthetic index of BSE. The 2004 -2006 period shows that the performances of the stock exchange area were superior to that of the funds; is the year 2005 that brings the first major decrease on BSE, the stock exchanges index bringing bigger losses thn the investment in MFI.

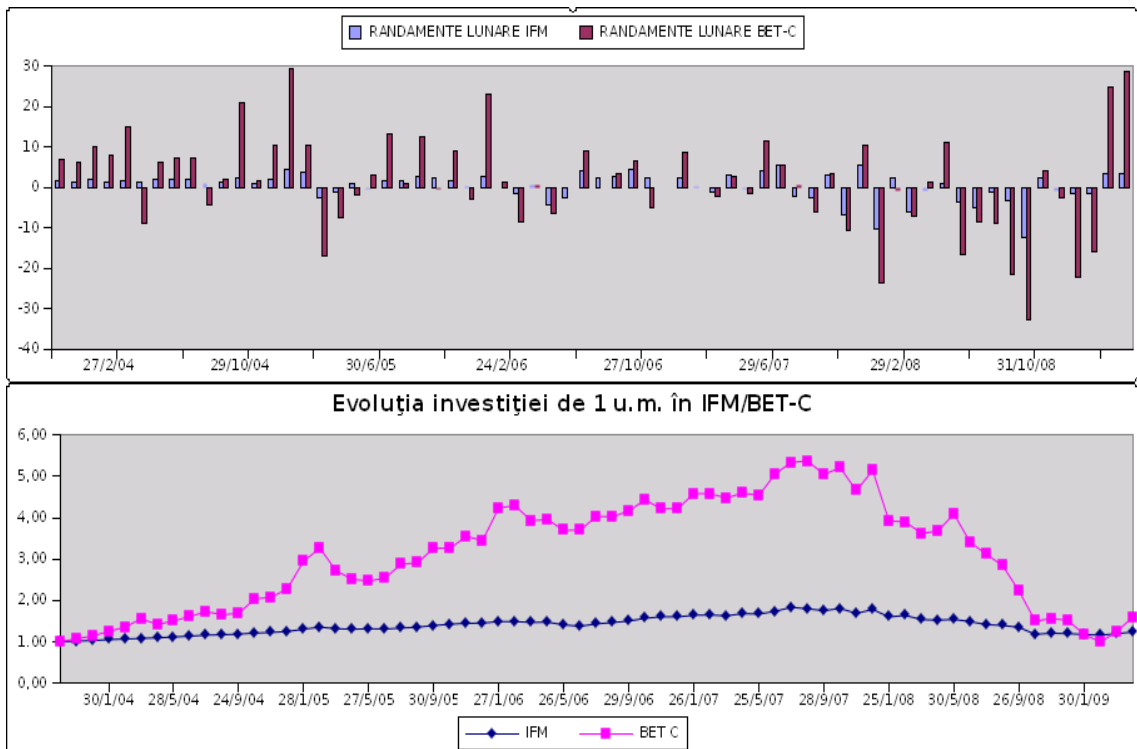


Fig 3 The analysis of the monthly evolution of MFI and BET- C³⁸⁵

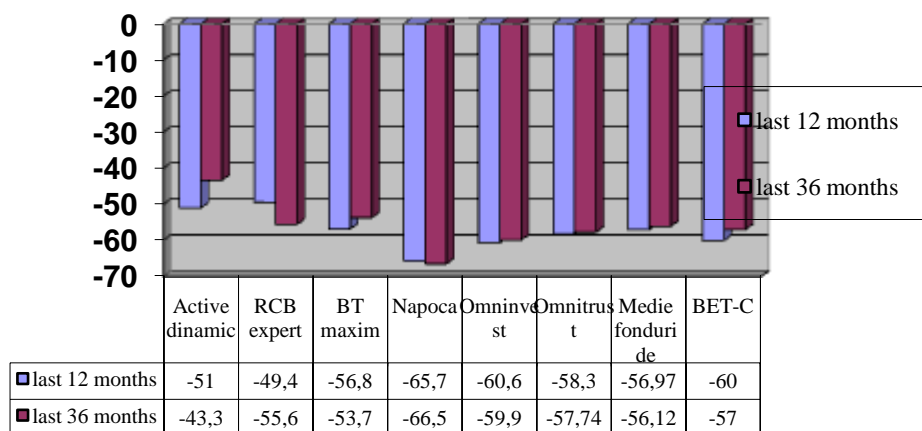
385 Primary datasource www.kmarket.ro , calculation and own diagram.

For a normal investor that doesn't want to be an active player on the stock exchange market a question is raised: which investment would bring him a larger profit and on which conditions? By investing 1 m.u. (monetary unit) on the 30-th of Oct 2003 in a portfolio that copied the BET-C index, our investor would have had 1.56 m. u. In comparison to 1.24 m.u. invested in MFI; at the same time we should take into consideration that by investing on BSE one could have won over 500% in 2006-2007.

In order to analyse the opportunity of investing in funds in comparison to BSE we will follow the stocks investment funds on a benchmark (BET-C). It is noticeable that the performances for the last 3 years, respectively 1 year, were negative for all the stocks funds; comparing to the chosen benchmark it is noticeable that the evolution for the last 12 months are almost identical and reduced (a difference of 3 % on average, to the last 36 months), even though the exposure levels of the investment funds on BSE are of 85% the maximum for some funds , these weren't able to have a better performance than an usual portfolio.

Fig.4 The Evolution of Stockfunds Efficiency versus BET-C386

PERFORMANCES



The weak performance of the investment funds in both the growth periods of the markets and in the decline periods especially , raises the problem of bad administration, of their capacity to foresee the general trend³⁸⁷; from this point of view the investment funds don't offer higher performances and an adequate protection against volatility and risks . For the medium and long term investor following an index of the capital market is more productive than investing in a stocks fund in a growth period; in the decrease period the losses are comparable (if not identical). It stands out that a passive investor that just follows an index gets higher performance than the administrators of the funds that actively invest. The only advantage in investing in a mutual fund is that the sums invested are small, while reproducing a benchmark in a portfolio is more expensive, the disadvantage is the high withdrawal fee that on a short term can go up to 5 % of the securities value. Our recommendation is using the investment funds for accumulating capital, especially by establishing that the main goal should be to preserve the capital (investing in low to medium risk profile investment funds); and to the investor who have a larger capital we

386 Primary datasource www.kmarket.ro , calculation and own diagram.

387 After Angelei Maria Filip – The Evaluation of the Performance of Mutual Funds in Romania, Printing House House of Science Book, the ability of managers to achieve market timing is without success, pg.166-167

reccomend to invest on a medium to long term by following a synthetic index of the capital markets.

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