

## INVESTMENT FUNDS IN ROMANIA

**Copil Crina Angela**

*Social Sciens Doctoral School, Faculty of Economic Sciences, University of Oradea, Oradea, Romania*

[crina.copil@gmail.com](mailto:crina.copil@gmail.com)

**Abstract:** *I chose this topic because my goal was to capture in detail all aspects of the evolution of investment funds under the influence of factors leading to globalization of the banking financial market. The main motivation was that I proposed to present in an original manner the concept of investment in mutual funds by the thoroughness of the following points: the different types of investment funds from Romania, the advantages, the risks and the specific costs of the investment in mutual funds and the effects of the financial crisis on the industry of the investment funds on the national level. The financial crisis and the risk of infecting the global economy affected the taste of risk of the investors and their request for the investment fund, determining the orientation of the investors to the funds with a lower risk – the diversified funds, the funds of bonds and the monetary funds. I considered important the theoretical approach of the concept of investments in investment funds because they are a barometer of the macro economical stability, in case the economical increase is positive on the macro economical level, the investments in investments funds are increasing too. In Romania the market of the mutual funds is at an incipient level, but with potential and perspectives of development. Due to the bankruptcy of FNI in the beginning of the years 2000 and due to the absence of a clear legislation regarding the calculation of the unitary value of the net asset and the control of the activity developed by the investment funds, the development of the industry of the investment funds had to fight against the crisis of credibility generated by these events. The convergence of the Romanian economy to the European standards will attract also a modification of the structure of the financial investments of the individuals, by an increase of the investments in funds. In the world the investment funds are preferred by the investors for their advantages, respectively the investment in instruments with larger capacity, the flexibility determined by the possibility of withdrawal in any moment without losing the cumulated gain, the administration of the portfolio by the professional administrators, the access to diversified placements with small sums, the reduction of the risk by the diversification, the strict regulation and surveillance of the activity of investments administration by the authorities surveying the financial markets. In the developed countries, the placements in administered investments can reach up to 40% of the financial assets of the families, and the deposits own a percentage of 40-50% of the assets, while in Romania the percentage of the investments administered from the total financial assets of the families is under 10%, and the placements in deposits represents over 80%. I consider that the founding of the subsidiaries of assets management in Romania by the banking financial groups contributed and will contribute in a great measure in the future to the increase of the degree of knowledge and acceptance of the investment in investment funds.*

**Keywords:** investment funds, investors, efficiency, portfolio, placements, fund units.

**JEL classification:** A11, E44, G11, G12, G21

## **1. Introduction**

The globalization and the regionalization placed their imprint on the Romanian financial bank market. We can observe that similarly with the tendency of concentration, segmentation, respectively the restructuring of the bank activity on many levels in the developed countries, there are, beside the commercial banks also the specialized one, which will offer the circumstances of the bank management improvement and of the efficiency. (Opritescu 2003) The bank globalization is performed geographically and structurally, the main financial bank groups are real aggregations that include banks, insurance companies, investment funds, the so called integrated financial services. The existence of these subsidiaries will lead to the increase of the degree of coverage of the investments in investment funds.

In this paper I proposed to analyze the types of investment funds existent in Romania, the advantages and the risks related to the investment in mutual funds and the impact of the financial crisis on them. The notion of mutual fund is different from one country to another, these collective investments plans being known with the denomination of mutual funds, investments funds, administered funds or simply funds. According to the Association of the Fund Administrators the investments funds are entities that cumulate money from many people (investors in funds) money that the administrator of the fund is investing according to the declared policy of the investment of the fund, in: instruments of the monetary market, municipal or/and corporate bonds, shares bargained on the stock exchange market, and in other movable values allowed by the regulation authority (CNVM). The profits thus accomplished are redistributed by redeeming of the fund units, to the same investors.

The financial crisis determined on the world level and on the European and national level, the orientation of the investors' preferences to investment funds with a lower risk, respectively to diversified funds, of bonds and those monetary.

I consider that the improvement of the legislation in this field, the development of the pension funds, of insurances and the macro economical stability will lead to the increase of the investments funds.

## **2. Short history of the investment funds**

The investment funds became known for the investors in the period of the years 1980 – 1990 when the invested sums of money and the obtained efficiency reached very high levels. The idea of accumulating money from many persons and their professional administration by specialized persons by investing in financial instruments is much older.

The origin of the funds is uncertain – some studies sustain that the first mutual funds, closed investment funds were initiated in Nederland in 1822 by king William I; other studies affirm that the idea of creating the investments funds was given to the king William I by a Dutch trader Adriaan Van Ketwich who owned an investment company even since 1774. He sustained that the diversification is that which determined the increase of the interest to invest of the small investors who owned smaller amounts

of money. The name of the investment fund created by Ketwich, *Eendragt Maakt Magt* is translated by "the unity creates power".

The first closed fund of investments created in USA in 1893 was Boston Personal Property Trust. The launching of the Alexander investments fund in Philadelphia in 1907 was a large step in the history of the modern mutual funds. In 1928 was launched the Wellington investments fund, the first mutual fund that invested in shares and bonds. The financial crisis from 1929 determined the reversal of the dynamics of the investment funds, the closed funds of investments being liquidated in a great measure, only a few of the opened investment funds succeeding to survive. The expansion of the industry of mutual funds determined also the creating/improving of the legislative background specific for the regulation of the conditions regarding the registration of new mutual funds, the protection of the investors, the delivery of information to them with the help of the funds prospects. According to the historical information regarding the mutual funds, they became popular in the last 20 years.

### **3. The presentation of the types of investment funds**

According to the Erste Asset Management a fund is actually a portfolio of financial instruments administered by experts (administrators) who respect the legal requests regarding the diversification of the risks. By the aggregation of the investments performed by the investors, the fund disposes of enough capital to be able to invest in diversity of financial instruments on some markets. In case he would act individually, the investors would find a series of difficulties or would need large sums of money in order to obtain the results offered by the fund. The investors own fund units that represent titles of participation in the fund assets.

Every fund invests depending on its own policy of investments in different currencies, in financial instruments from different geographical regions or belonging to some sectors of activity, the funds promoted with different name considering the geographical regions where they invest (Emerging Europe) or some activity sectors, (ex. Technology). It was found that depending on the country and the risk of the currency in which the fund invests, there is a preference for the funds that invest in the local currency or in the financial instruments on the internal market. The preference of the investors for some investment funds is established depending on the investment policy of the funds, their past performances, the commissions related to the investment in funds, etc. Some funds of investment are addressing to some sophisticated investors, others are addressing to those from the Private Banking category.

The investment funds can be, depending on the class of assets in which they invest – monetary funds, bond funds, diversified funds and share funds; each of these funds are associated different degrees of risk.

- *The monetary funds* invest in instruments of the monetary market. The objective of these funds is to protect the invested sum of money and to assure an income. These funds are addressing the conservatory investors, with a decreased risk profile, the average period of the placements is of 1 year.

- *The bond funds* invest in municipal, corporatist bonds or in state titles. These funds have a strategy of investments based more on obtaining the income than on the increase of the investment. The bond funds are addressing to the investors that want

to obtain performances of the investment higher than those related to the investment in instruments of the monetary market.

- *The diversified funds* invest in shares, bonds and sometimes in instruments of the monetary market. These funds have a strategy of investments based on income, increase and stability and are addressing the investors that want to obtain an income but also a potential increase on a long term higher than in the case of the bond funds.
- *The share funds* invest in shares. These funds have a strategy of investments based on the increase.

In Romania, the investment funds are found in the following forms:

- *Organizations of collective placement in movable values* (OPCVM) in the form of open investment funds (open end funds; UCITS)
- *Other types of organizations of collective placement* (AOPC) in the form of closed funds of investments and companies of financial investment (SIF) whose shares are bargained at BVB (closed end funds; non UCITS).

Between the open funds of investment and those closed the main difference consists of the way the issuance of the fund unit is organized.

The open funds have a permanent issuance of fund units as opposed to those closed which don't have a continuous issuance and are addressed to a limited number of investors. The open fund of investments is a civil company, without a juridical personality, that collects the money available from investors by continuous issuance of fund units, invests in financial instruments and distributes the income to its investors, in the moment of the redemption of the fund units. Not having a juridical personality, the open funds of investments are administered by a company of investment administration (SAI). A company of investment administration can manage one or more mutual funds.

To the open funds can permanently be subscribed investors, new ones and those well established in the fund. In the same time, some investors can withdraw completely or can redeem a part of the number of fund units owned.

In case of a closed fund of investments, is issued a limited number of fund units during an initial public offer (IPO). Afterwards, these units are transitioned directly or to the share market by the fund manager. If the request for units is great, they can be traded with a value greater than the value of a fund unit (are traded with bonus). Similarly, if the request for units is reduced, they can be traded with a value smaller than the value of the fund units (are traded with discount).

### **3.1 The method of functioning of the mutual funds**

The present value of the assets of the fund represents the total assets of the fund. If these total assets are subtracted the present expenses of functioning of the fund it is obtained the total of net assets. The unitary value of the net assets (VUAN) or the value of the fund unit is obtained dividing the total net assets to the number of fund units. The value of the net assets, the unitary value of the net assets and the number of investors is calculated daily by the company administering the investment and is certified by the depositary. The value of the net assets and the unitary value of the net assets will be published by the company administering the investments daily for each working day in newspapers in the financial field and on the website of the administration company and will be posed daily for each working day at the registered office of the company of investments administration and at the registered office of the agents distributing the fund units. The list of the distributor agents can be accessed on the website of the company of investment administration.

### 3.2 The advantages of the investment in an investment fund

The advantages of the investment in mutual funds are the following:

- The investment funds represent diversified portfolios of financial instruments, *the related risk being smaller* than the risk associated to each financial instrument in part. As a consequence a diversified portfolio can obtain good results even if some shares register losses.
- The legal structure and the strict regulations that govern the investment funds offer a *very large protection* against the fraud or the illegal financial practices.
- Each investor has at his disposal the prospect of the fund, which includes all the document that are used for the functioning of the fund, assuring thus a great degree of *transparency*, can be accessed in any moment the website of the fund.
- With an *investment relatively small*, the investors can participate to investments on financial markets that are difficult to be accessed by the small investor.
- the mutual funds pay *smaller commissions of trading* than the individual investors. The costs of trading more reduced are translated in better performances of the investments.
- The open funds of investments offer *more liquidity* than the other financial instruments. The investors have the possibility to exit the fund investment in any moment, by the redeeming of the fund units by the fund. The value of the fund unit is calculated daily, they can be purchased and sold in any moment by filling in a simple form. The investment funds are obligated by law to accept any redemption of the issued titles.
- *The professional management* – a specialized team takes the decisions of purchase and sale, on the basis of some detailed analysis. More over while the conditions of the market are changing, the management of the fund is restructuring the portfolio, so that the financial objectives can be reached, the portfolio is monitored and optimized permanently.
- *Protecting the investments* – the investment funds and the administration company of these funds need to respect the laws and the strict rules imposed by the National Commission of the Movable Values..

### 3.3 The risks associated to the investment in investment funds

The investments in investment funds are not guaranteed by the state and the investment funds don't participate to the fund of guaranteeing the bank deposits. The investment in a mutual fund can increase or decrease depending on the evolution of the price of the financial instrument in which the fund invests. The past performances of the investment fund don't represent a guarantee of the future accomplishments. The mutual funds invest in financial instruments that presuppose a certain degree of risk. This degree of risk related to financial instruments is different depending on the expected efficiency. The obtaining of performance is in a close relationship with the assumed degree of risk, thus, for a decreased level of risk, the level of expected performance is decreased and for an increased level of risk the expected performance is increased. The clients have to know the risk they are exposed when they choose an investment fund. For example when they decide to invest in instruments with fixed income they involve a decreased degree of risk but also a reduced expected efficiency. The investment in shares implies an increased risk but also an increased expected efficiency. The managers of funds have to respect the rules of the fund which are approved by the National Commission of the Movable

Values and the effective legal provisions, also the administrator has the possibility to administer the assets and won't access the money of the investors which are controlled by the depositary.

### 3.4 The investment funds in Romania

The market of the mutual funds from our country is still at a low level comparing to other countries from The European Union but with an increased potential of development. The lack of trust in the investment funds in the last 12 years was due to the National Fund of Investments, which prejudiced a great part of the investors of that time. This was due also to the precarious legislation regarding the calculation of the unitary value of the net assets and the control of the activity developed by the investment funds. In this period it had to be done a hard work for the regaining of the trust lost, the legislation in this field was improved so that the investment funds began to become "a world to be conquered", as the specialists from Erste Asset Management say.

This legislation was aligned to the European legislative regulations. The way the investors are protected in the present legislation and all the links related to the launch of such a product, shows clearly that the bankruptcy of a mutual fund is not possible. For sure the value of a mutual fund can decrease according to the evolution of the market but the possibility of a fraud or the major losses are excluded.

It was observed in some countries from Central Europe and Eastern Europe that in the first place the economical stability correlated with a rate of inflation reduced lead to the development of the investment fund market. Also the appearance of some pension funds, of insurance, that want to place the sums of money for long periods of time with better efficiency than for the bank deposits lead to the increase of the degree of intrusion of these funds on the market.

We can say that the secrets of the investment funds would be the great force of negotiation of the interest including for the deposits of large sums of money, and the better efficiency obtained by the professionals.

Since 2000 and until the present the mutual funds from Romania attracted over 245.000 investors, reaching to a record level. This number is important more over because it was reached in the conditions of the financial crisis.

Year	Investors	Funds	Assets (mil.lei)
2005	71.021	23	339
2006	78.380	32	633
2007	82.458	41	954
2008	90.694	52	940
2009	164.446	51	3.350
2010	221.862	57	5.488
2011	233.777	61	6.781
2012	241.368	63	8.811

Figure 1: The evolution of the open fund investments market 2005-2012

Source: The report of the association of the fund administrators

We can observe that in the last eight years the number of the investment funds and the number of investors was tripled and the invested assets increased from 339 mil to 8.811 mil. Ron; that shows that more Romanians chose beside the convenience of the deposits the investment funds as an alternative that offers them a better efficiency. In the period of financial crisis were preferred the funds that have a lower degree of risk, are liquid and offer better efficiency.

In Romania, beside the local mutual funds, namely the investment funds belonging to the organizations of collective placement from Romania, are distributed also fund units belonging to the organizations of collective placement from members states from The European Union.

The organizations of local collective placement in movable values (OPCVM) were consolidated beginning with the year 2009 the role of alternative solution of saving, attracting publicly the significant financial resources from the individuals and juridical persons. Thus, after an easy repulsion in the previous year, the industry of the investment funds registered beginning with the year 2009 a significant positive evolution, in the level of the number of investors, and in the level of the net assets in the administration.

In 2009, the number of investors in open funds of investments (FDI) AAF members (The Association of the Fund Administrators from Romania) increased with 81% comparing to 2008 (164.446 investors), especially due to the individuals investors, the total number of investors in the open investment funds and AOPC (Other organizations of collective placement) reaching to over 250.000, and in 2012 the total number of investors was of 335.000. The value of the net assets was influenced positively by the recovery of the quotations of the listed share and by the significant increase of the number of investors and their volume of investments. The sum of net assets of the open fund investments at the end of 2009 was of 3,35 billion RON, 256% over the level registered at the end of 2008, and in 2012 of 8,81 billion Ron. The first 5 administrators of funds registered the following total market shares on 31.12.2009: Erste Asset Management – 43,08%, Raiffeisen Asset Management – 30,23%, BRD Asset Management – 8,49%, BT Asset Management – 4,86% and OTP Asset Management – 3,28%. On 31 January 2013 the market shares were the following: Erste Asset Management – 37,48%, Raiffeisen Asset Management – 33,37%, ING Asset Management Bucuresti-12,43% and BRD Asset Management – 7,41%. It can be observed that Erste Asset Management is the financial group with the largest market share in 2009 and in the present.

In the table presented below is presented the evolution of the investment funds (open and closed) in December 2012 comparing with the previous month and the beginning of 2012.

31.12.2012	Open funds of investments (OPCVM)							Total	
	Monetary	Bonds	Diversified	Shares	Funds of funds	Others	Total	Closed funds AOPC	OPCVM funds and AOPC
Number of funds	1	27	23	49	1	16	117	21	138
Percentage in total assets OPCVM (%)	0,2	49,4	2,6	5,7	0,1	42	100		
Assets net (mil. Lei)	17,5	5.059	263,2	577,4	9,8	4286,2	10.790,4	420,5	11.210,9
% in the report month	-2,0	2,9	2,8	12	2,3	0,6	5,5	1,9	7,4
% in year 2012	-99,5	174,5	7,8	16,8	9,0	234,8	45,75	60,9	106,6
Subscriptions monthly (mil. Lei)	1688,11	1816,7	61,3	88,7	0,1	2378,5	6026	258,6	6284,6
Redemptions monthly (mil. Lei)	1233,9	1027,1	72,8	96,6	0,0	2055,0	4485,5	116,5	4602
Subscriptions net monthly (mil. Lei)	454,2	782,2	-11,5	-7,9	0,1	323,5	1540,5	142,1	1682,6
Number of investors	60	110392	51281	11.352	6	68.097	241368	91.684	333052

Figure 2. – The evolution of the investment funds (open and closed) in December 2012 comparing with the previous month and the beginning of 2012  
Source : Association of the Fund Administrators

From the analysis of the data presented in this table we can see that at the end of December 2012, the number of investment funds was 138, of which 117 open funds of investment and 21 closed funds of investment. From the point of view of the volume of administered assets by the investment funds, the greatest percentage was owned by the bond funds - 49,4%. The great percentage of the assets administered by the bond funds is due to the aversion to risk caused by the financial crisis that oriented the interest of the investors to placements with a reduced risk.

On 31.12.2012, the total volume of assets of the investment funds had a total of 11.210,9 mil. RON of which 10.7940, mil. RON in open funds of investment and 420,5 mil. RON in closed funds of investment. Comparing to the beginning of 2012, the volume of assets of the open funds was of 333.052 on the date of 31.12.2012, of which 91.684 investors in closed funds of investment and 241.368 investors in closed funds of investment.

In December 2012, we can observe that the assets of the monetary assets decreased with 99,5%, reaching 454,2 mil. RON, the assets of the bond funds increased in December 2012 with 174,5% comparing to the beginning of the year, reaching to 5.059 mil. RON. In December 2012, these funds attracted net subscriptions of 782,2 mil. RON. The share funds registered an increase with 16,8% in 2012 the assets were of 577,4 mil. RON.

The assets of the fund funds registered an increase of 2,3% in December 2012 comparing to the previous month and an increase of 9% from the beginning of the year, having assets of 9,8 mil. RON.

The assets of the funds from the category "Other" increased with 0,6% in December 2012 comparing to the previous month, reaching to 4286,2 mil. RON. On the other side, the assets of the closed funds had in December 2012 a value of 420,5 mil. RON, increasing with 1,9% comparing to the previous month and 60,9% from the beginning of the year.

#### **4. In conclusion**

Regarding the conclusions of the research I consider that the present global economic and financial situation presents a high degree of disequilibrium due to the financial crisis. In this context, I consider that the investors will give a greater attention to the way the portfolio of investment are structured with a stress on their expectance, the understanding of the efficiency-risk correlation, orienting thus to investments with a lower degree of risk. The new philosophy of investments based on the behavior of the clients represents a major and global tendency from the economic and social point of view that will create important opportunities for the increase and transforming of the industry of investment funds.

After 2008 the investors structured their portfolio so that the risk would be minimum, increased the bond funds comparing to the deposits, in general, oriented their philosophy on investments from performance to risk and protection of the assets. The management of the risk has to be calculated actively.

The trust in the investment funds was regained step by step, we could say at this moment that more investors are considering the investment funds due to some upper efficiencies of the deposits, only at Erste Asset Management the number of investors was over 100.000 Romanians. We could say that they understood that one of the secrets of the success in investments is to widen the horizon beyond the convenience of bank deposits.

The increase of the segment of the investment funds from the last years is connected mainly by factors like the investment opportunities, the strategies of the financial bank groups relate to the distribution of the investment funds, the increase of the degree of financial bank education of the population.

I am confident in the evolution of the investment funds considering that the Romanian economical and bank environment is in a continuous dynamic with influences on the clients and on the economy, it can't remain isolated from the transformations that are produced on the international level in the context of globalization. The dynamic development of the investment funds caused by a larger range of financial instruments available and of the interesting performances brought by the investment funds until the present allows me to estimate that also in Romania the placements in administered investments will be close to 40% as in the developed countries, and the percentage of the bank deposits will reach to 40-50%. Also the consolidation of

the macro-economical stability and the decrease of the inflation will contribute to the increase of the industry of investment funds.

The perspectives of the capital market, the familiarization with such alternatives to the classic instruments of saving are some factors that would make them the most important ways of investment from the financial market.

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