



The Mutual Investments in Romania - Current Developments and Trends

Florina Oana VIRLANUTA*, Daniela NECHITA**

ARTICLE INFO

Article history:
Accepted February 2013
Available online 30 May 2013
JEL Classification
E22, E63, F21

Keywords:
Mutual investments, Efficiency,
Investment funds, Mutual funds
index

ABSTRACT

Mutual fund industry in Romania has undergone significant growth in recent years in the number of investors and the net assets managed, but still very small compared to other European countries. Capital market development in Romania, the emergence of new investment instruments provides a greater variety of mutual funds investments. Managers decide on the structure of the portfolio by selecting categories of assets in accordance with the rules set out in the Prospectus and according to the degree of risk. In this paper we propose to realize an analysis of mutual investments system in Romania, the progress and their efficiency.

© 2013 EAI. All rights reserved.

1. Introduction

History of investment funds in Romania was marked by scandals early development due to fraud and mismanagement. The first investment fund in Romania - Businessmen Mutual Fund administered by the Society of Financial and Investment and storage - Dacia Felix Bank is established with the issuing Government Ordinance no. 24/1993 governing the establishment and operation of open funds.

Since there is no methodology for calculating the net asset value, but each fund calculate this indicator according to the method stipulated in neither the prospectus nor an institution that was established to control this area, the increase in the investment funds were more than actual values.

Consequently, the early years of development investment funds (1993 - 1996) were marked by difficulties arising from the fact that the financial market was underdeveloped, there is no legal framework governing this area and using inappropriate investment policy. With the approval of instruction no. 6 on the calculation of net asset value of investment funds by NSC crisis occurs first mutual fund; the latter were forced to recalculate the value of the indicator, which fell with significant values creating panic among investors, manifested by increasing redemption requests.

Mutual fund crisis of 1996 was the result of lack of adequate regulatory framework and lack of investment education population. The liquidity crisis Dacia Felix Bank, Bankruptcy and Credit Bank in general banking difficulties are also among the factors that have corroborated the deteriorating situation was already critical that the mutual fund industry.

Since 1997 the industry has settled on a more tightly regulated and should start an upward trend, which did not happen smoothly, namely: credibility crisis that followed the events of 1996; the low volume of transactions in the stock market; inclination of the population by hoarding currency and bank deposits; the high bank interest; high inflation.

With capital market development and regulation of this "industry" investment funds recorded a return above the interest rate under conditions of relatively low risk.[1] Thus, in 1997 most of the assets of the investment funds were placed in certificates of deposit and bank deposits, recording constant returns.

2. The premises of emergence and development of investment funds

Investment funds have grown in all countries, but bearing different names: in the U.S. are called investment funds or investment trust company in EU member states are called collective investment undertakings and in Romania these entities appear as the investment undertakings collectively.

Investment funds have suffered fluctuations considerably in recent decades, both in terms of number and portfolio managers and in terms of investment strategies and financial instruments used.

The premises which led to the emergence and development of collective management are: Diversification; Non-intermediation; Globalization. [2]

*,**Dunarea de Jos University of Galati, Romania. E-mail address: florinaoana27@yahoo.com (F. O. Virleanuta), dananechita2002@yahoo.it (D. Nechita)

Over time investors were interested in finding profitable investment instruments with a low risk level. While it was shown that capital market financial assets are more efficient but also more risky by their volatility. The interest of investors for high returns and low risk led to diversification of investment opportunities.

Along with diversification, e-banking intermediation is another prerequisite. As a result of the fact that investors have turned their attention to the stock market, bank deposits giving role in attracting and placing savings banks fell sharply. Thus, develops other financial instruments and investment funds and are increasingly requested service professionals specialized in managing portfolios of securities.

The third premise, financial globalization, a phenomenon manifested by three processes: financial liberalism, deregulation and technological innovation led to the internationalization of financial markets, diversification of investment in the capital market and multiplication techniques for assessing the performance of portfolios of securities.

3. Evolution of index mutual funds in the period 2000-2013

In 2000, MFI recorded an appreciation of 49% and contains the following funds: Fortuna Gold, Gelsor Currency Fund, the National Opportunities Fund, managed by Vanguard Asset Management and Phoenix managed by SAFI Invest. In 2001, Mutual Funds Index recorded an increase of 37.5%. Mutual funds are moving towards capital market instruments and released the first two funds aimed at the actions listed: Investment Fund and fund Napoca Investment Found. In 2004 the current legal framework is created by adopting the Law no.297/2004 on the capital market.

In 2006, investment funds recorded a yield of 1.09% due to increases by equity funds: National Opportunities - 6.21%, Active Dynamic - 4.13%, Omninvest - 3.92% Intercapital - 3.49%, KD Maximus - 2.75% Napoca - 2.59% and diversified funds: Transylvania - 3.87%, Capital Plus 2.17% ,BCR Dynamics - 1.82%. [2]

Total assets managed by investment funds at the end of 2007 was approximately 310 million, representing 0.3% of Romania's GDP, an extremely low, even compared with neighboring countries. The year 2008 is characterized by losses for investors in stock funds due to decreased stock shares. The Transylvania fund with investments in equities and money market instruments gave investors a loss of 34% Napoca - 53.37%, Raiffeisen Romania shares - 51.35%. Bond funds have become, however, the most popular investment fund BCR ensuring gain for its investors 7.23% Horizon - 6.68%, Stabulo - 6.46%, Symphony 1 to 5.98% Bancpost Plus - 5.06%. [3]

In 2009, the 51 local market mutual funds registered in September net subscription of 226 million (53 million Euros), of which over 200 million have entered the four bond and money market funds managed by BCR Raiffeisen Bank and Banca Transilvania. The third quarter was the best in the history of Romanian funds, attracted net investment in that period amounted to 711 mil lei (167 million Euros) while the entire market at the end of 2008 amounted to 940 million. In the first quarter, the funds have gone 619 mil lei.

The best efficiencies, in 2009, were recorded by: Carpathian Stock, an increase of 5.63%, Carpathian Global - Zepter Bonds 4.80% and - 4.77%. Funds posted losses this year are: BT Index - 20.73%, BT Maxim - 14.80% Napoca Action Fund - 14.45%.

This explosion of investment funds is due, in principle, aggressive sales strategy used by big banks to promote bond funds and money. According to data released by the Association of Asset Managers in 2011, the net assets of the 60 local investment funds reached 6.8 billion USD, increasing by 24% compared to the end of 2010.

In 2012, continues to hold a significant share of money market funds and bonds. In the first semester the best records it yields the following funds: ING International Romanian Bond - 3.62% (annualized 7.24%), BCR Bonds - 3.44% (6.88% annualized) Certinvest Bonds - 3.42% (6.48% annualized), Raiffeisen GBP Plus - 3.35% (6.7% annualized), OTP Comodis - 3.29% (6.58% annualized), BT Bonds - 3.26% (annualized 6.52%). [8] In July 2012, the net assets of local investment funds increased by 20.3% since 2010 and by 2.9% in the previous month, reaching the value of 8.156 billion lei (1.7 billion euros). Similarly, in 2012 ING Bank launches international mutual funds, registered and regulated in Luxembourg, managed by ING Investment Management, providing investment following: Romanian Bond, Romanian Equite, Emerging Europe; Euro High Dividend; US High Dividend; Greater China; Global Opportunities, Emerging Market Debt.

During this period the investment fund market fund is 136, of which 115 open (61 local and 54 foreign) and 21 closed.

In April 2013, according to data released by the Association of Asset Managers Romania (AAF), the net assets of the 61 local investment funds amounted to 9.79 billion USD, an increase of 11.1%.

However, the volume of net assets held by the 21 funds closed impairments, were recorded by 2.4% in value of EUR 456.3 million. Fund denominated in euro Audas Piscator run company Atlas Asset Management, leads the standings funds with the highest yields opened in April 2012 - April 2013, with a yield of 35.4%, with £ 480,000 in assets placed shares (41%), foreign currency derivatives (33%), bank deposits (14%).[8]

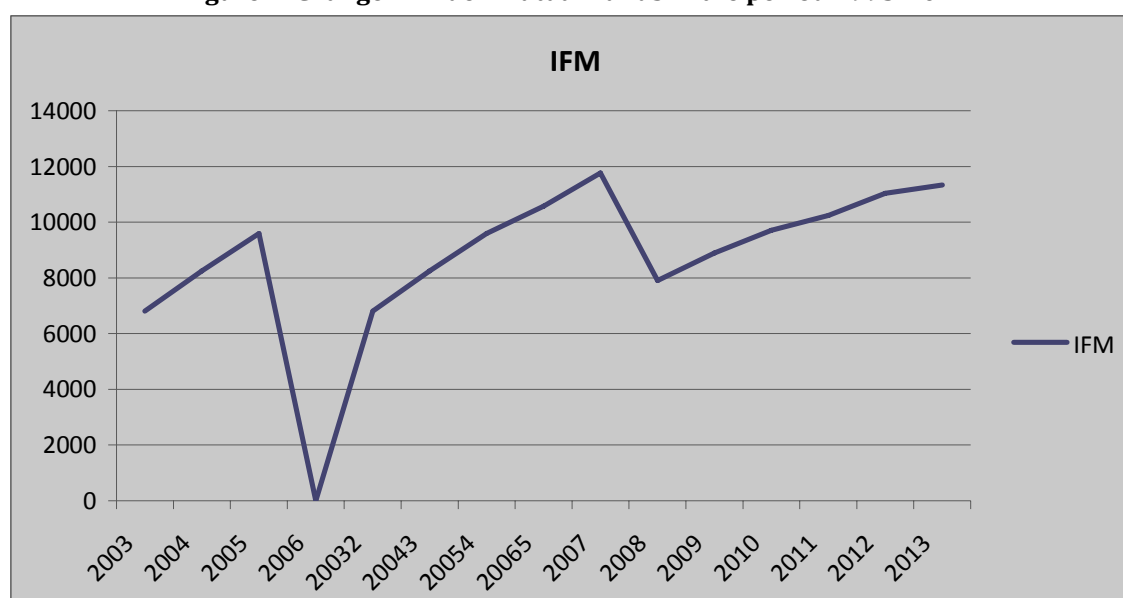
Table 1. Top mutual funds (open) with the highest yields in 2012

Name fond	Administrator	Investments	Efficiency	Net asset (million RON)	Number of investors
Audas Piscator	Atlas A.M.	Deposits, shares, derivatives	35,4%	2,4	10
BT Index ATX	BT A.M.	Shares	12,6%	10,00	115
BCR Europa Avansat	Erste A.M.	Founds	11,00%	10,7	8
Carpatica Global	Carpatica A.M.	Deposits, shares, derivatives	9,00%	12,2	427
BT Index România ROTX	BT A.M.	Shares	8,6%	13,7	363

Source: www.zf.ro, accessed at 24 July 2013

The following funds ranked in the top open with the highest yields are Indes ATX BT fund managed by the fund management arm of Banca Transilvania investment, BT Asset Management and Advanced BCR Europe, managed by Erste Asset Management. Developments investment funds during its brief history in Romania can be traced by analyzing the variation of Mutual Funds Index

Figure 1. Change in Index Mutual Funds in the period 1993-2012



Source: author, according to data taken from www.kmarket.ro, accessed on 27 June 2013

The dominant position of credit institutions in the financial system has increased slightly, while the share of non-bank financial institutions has continued and in 2011 the downward trend registered in previous years. Total net assets of non-bank financial institutions decreased while the amount of new loans was below the loan portfolio at maturity. However, there were increases in the percentages of investment funds, respectively, private pension funds.

Investment fund industry in Romania, although very weak, has in recent years a steady growth rate both in terms of number of emerging market funds and net asset value managed by them. The development of this segment of the capital market depends, on the one hand, the professionalism and vigilance authorities fund managers, on the other hand the rational behavior of investors.

According to a report published by the European Fund and Asset Management Association (EFAMA) gap between funding market in Romania and European countries, even those in Central Europe is enormous, Romania being the last place, with fewer funds and a small value of assets managed by management companies. However, the upward trend in recent years places Romania among the countries with a developed market mutual funds in Eastern Europe. The balanced investment policy it adopts, oriented both towards action and towards fixed income instruments and bank deposits, funds diversified savings instruments stated that the optimal medium and long term. At a lower risk of assumed equity funds, diversified funds offer higher returns on bank deposits or bonds.

Table2. Indicators for diversified funds

No.	Indicators	2009	2010	2011	2012	2013*
1	Market share (%)	0,475	0,247	0,130	0,071	0,062
2	Number of founds	17	23	24	23	23
3	Net asset (mil. RON)	15,703	13,390	10,172	11,442	11,517
4	Increase of net asset (%)	-	-14,73	-99,92	12,49	0,66
5	Number of investors	2823	2287	2156	2230	2229
6	Net asset/investors	5562,52	5854,83	4717,99	5130,94	5166,89
7	Increase of net asset/investors (%)	-	5,25	-19,42	8,75	0,70

Source: author, according to data taken from www.aaf.ro website, accessed on 25 June 2013

Diversified funds have the strategy using several different instruments, including government securities, deposits, bonds and shares, to provide the best combination of gains and risks to investors. Diversified funds have a medium level of risk among investment funds, but their earnings are higher than those made by bank deposits, treasury bills or bonds. Registered investment unit value fluctuations, including decreases in periods when the stock market shares decrease, but the overall trend remains upwards, due to higher share of fixed-income instruments.

4. Conclusions

Frauds proportions caused by the lack of adequate legal framework, the lack of a supervisory body, banking crisis have shaken public confidence in these investment mechanisms. In recent years, mutual funds managed to register positive returns on average, but well below returns BET.

Membership of the European Union requires a more rigorous analysis of the organization and operation of investment funds. Thus, on 1 November 2007 entered into force a new legal framework enhancing competition in European financial markets, while ensuring a higher degree of protection and superior information to investors. Romanian investor behavior does not coincide with that observed in developed markets; they are reluctant on account mutual fund history. The big players in the financial markets argue that mutual funds are inefficient compared to closed investment funds or hedge funds (hedge funds investments) that invest in a broader array of assets. However, we must not ignore the fact that these types of investments are dedicated investors 'privileged', while mutual funds is addressed to any person / entity.

Performance Analysis of mutual funds in Romania is difficult on account of their short history and low liquidity. Mutual funds in Romania are a young industry with high growth prospects in conditions of increasing stock liquidity and development investment instruments. European context is another factor in recording a positive trend. Also, lower bank interest rates and yields on real estate market, are factors that will cause people to place their savings in financial assets with higher returns. Romanian market access of large investment funds in the European Union will increase competition and enhance public confidence in these investment vehicles and managers will be forced to find innovative ways to build portfolios of assets.

It should also be pointed out that investment funds not only increase its value, and then withdrawing money. An alternative to this behavior as a plan investment staggered placement and withdrawal of savings, investing a certain amount each month. The money can be used to multiply a pension plan alternating for purchases of durables or finance other major expenses. Investment funds differ according to goals, strategy, management company experience or the quantity and quality of information provided to investors and bring different gains, implying different levels of risk. Therefore, choosing a fund or investment fund involves a complex analysis.

References

- [1] Filip, A. (2008) – "Performance evaluation of mutual funds in Romania", Editura Casa Cărtii de Știință, Cluj Napoca
- [2] Luchian, I. (2008) – "Investment Portfolio Management: Synthesis, charts, case studies", Editura Casa Cărtii de Știință, Cluj Napoca
- [3] Prisacariu, M. Ursu, S. Andrieș, A. (2008) – "Markets and financial instruments", Editura Universității "Al. I. Cuza", Iași
- [4] Stoica, V., Văduva, F. (2001) - "Capital markets and securities", Editura Fundatiei "România de mâine", București.
- [5] Todea, A. (2006) – "Investments", Editura Casa Cărtii de Știință, Cluj Napoca
- [6] Tulai, H. (2004) – "Financial markets", Editura Casa Cărtii de Știință, Cluj Napoca.
- [7] Voicu, E., Pașol, R. (2004) - "Personal investment guide", Pagina pietei de capital din România, București.
- [8] Financial Stability Report - 2012 published by the National Bank of Romania.
- [9] www.kmarket.ro
- [10] www.aaf.ro
- [11] www.cnvm.ro
- [12] www.conso.ro
- [13] www.bvb.ro