

ASSOCIATION OF ASSET MANAGEMENT COMPANIES COVERS ALMOST ALL MUTUAL FUNDS ON THE SLOVAK MARKET

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The Association of Asset Management Companies (AAMC) was established on 23 February 1998 at an establishing meeting of members and in April 1998 was registered at the regional office Bratislava. It was founded by the main companies operating at this time in the field of collective investment in Slovakia. At present all main companies dealing with mutual fund management in Slovakia are associated in it. Members of the AAMC are the fund management companies Tatra Asset Management, Prvá Penzijná, VÚB Asset Management, J&T Asset Management, Sporo Asset Management, Istro Asset Management, AMSLICO AIG Funds and ARGOINVEST.

Besides the above stated full members the AAMC has a further nine affiliate members which operate in the Slovak collective investment market mostly as representatives of foreign mutual funds. These companies are Ľudová banka, ČSOB, HVB Bank, Pioneer Investments, ATS Brokers, SFM Slovakia, All Street, the Restitution Investment Fund, ŽB-Trust, and Across Investment Services. The collective investment sector in the form of mutual funds is only in its early stages in Slovakia, despite the fact that through this form there have already been allocated more than SKK 12 billion of public savings.

The establishment of the AAMC came about through the efforts of companies having an interest to remain operating in the field of collective investment within the legal framework on the joint solution to several problems. These fall primarily in the sphere of legislation, accounting, taxes as well as investor confidence – primarily that of the public at large. One of the main aims that the AAMC upon its establishment set for itself is the preparation and implementation of binding rules on transparent business conduct, which should contribute to establishing confidence in collective investment in Slovakia. The AAMC in the short period since its establishment has created the basic organisational and personnel conditions for its activity. Its representatives have managed to tie up contacts with the main financial market institutions in the Slovak Republic (SR). One of the main priorities for the AAMC is co-operation with the legislative bodies of the state in creating statutory standards governing the financial market area. It has actively become involved in the process of preparing Act No. 385/1999 Z. z. on collective investment, which created the basic legal framework for the activity of fund management companies and licensed mutu-

al funds in Slovakia. An important legal norm for the field of collective investment is also Act No. 566/2001 Z. z. on Securities and Investment services, in the preparation of which the AAMC also participated. A long term effort of the AAMC is that these as well as other related statutory regulations are further improved and harmonised on an ongoing basis with regulations valid in the European Union member states and that there are created the conditions for the development of the whole collective investment sector. Apart from its work in the field of legislation the AAMC provides information on the advantages of collective investment also to the wider public. From its point of view correct relations with the media are a clear priority. The AAMC gathers, processes and distributes much data on the progress of mutual funds and for the composition of their portfolios on a weekly, or monthly basis. All data are published on the web page of the AAMC (www.AAMC.sk), and are also published in economic-oriented daily newspapers and magazines. Part of its task of providing information however is also to draw attention to negative effects arising, in particular of fraudulent and misleading practices of certain subjects in gathering financial resources from the public. The AAMC has been very active in focusing itself on this problem and professionals from among its ranks have as the only ones to do so undertaken the task of carrying out detailed analyses of the activity of such unlicensed subjects.

One of the basic tasks of the AAMC is also to create the bases for raising the professional level of employees of members of the association, as well as other participants in the financial market. Educational seminars are organised on various topics by the AAMC aimed at gaining theoretical knowledge and practical skills from the financial markets field. The seminars are prepared and led exclusively by experienced top professionals from the given field. Seminars are intended for portfolio managers, brokers, dealers, fund management analysts, stockbrokers, banks, insurance companies, life assurance companies, financial managers and asset administrators of organisations and businesses as well as for the wider spectrum of sales persons for mutual funds from among the ranks of fund management companies, stockbrokers, banks, independent networks of sales persons of financial market products and intermediaries for investment services.

On the basis of an authorisation of the Financial Market Authority of the SR the AAMC ensures the organisation and



execution of professional examinations of aptitude in the field of collective investment in accordance with Act No. 385/1999 Z. z. on collective investment. The content of the professional exam, and the method of its execution and other details are stipulated by the regulation of the Ministry of Finance of the SR No. 26/2000 Z. z., where the date for its execution is declared by the Financial Market Authority 60 days prior to the date of the exam being held and informs the public of this through and the nationwide press. So far this exam has been held five times and 46 professionals from the financial market have passed successfully. Its structure and composition represent an essential condition for managing employees of fund management companies in a direct management relationship to a board of directors, where these employees are responsible for the professional activity in accordance with the Act on collective investment.

What are the biggest barriers to the further development of collective investment in Slovakia? A significant problem is certainly the low awareness among the public of this form of investment. Very few people register the fact that there exists the possibility for investment in mutual funds and if they have already heard something about this, they are mostly unable to differentiate licensed mutual funds from fraudsters, who promise unrealistically high above average appreciation rates. As this situation improves, so will also the range of mutual funds and the assets in them grow. The year 2001 recorded an approximately 50% growth of financial funds in mutual funds of AAMC members, which bears out the fact that the efforts of the fund management companies to gradually fill the current awareness vacuum on the possibilities of collective investment has not been for nothing and that mutual funds are becoming an ever more popular form of investment. This has to a large extent resulted also from signi-

ficant investment in educating mutual fund sales persons themselves, these being independent networks of financial advisers, or the relevant employees in bank branches.

In the USA almost 50% of people's savings are invested in mutual funds; the average in the EU is around 25%. Our wish is that we gradually approach at least the European average. For this however there must be created the conditions, for example in the form of pension system reform, where an individual is motivated, or compelled to save for his/her own pension during their productive age in their own pension account. Without systematic changes in this field we will simply continue to move somewhere around the tail end of the statistics.

The safety of investing and the distribution of risk to an acceptable extent are the basic pillars upon which the existence and principles of mutual funds are based. The safety of investing is closely connected with the term investor protection and in essence means to what extent the interests of the investor are protected. The way of creating and the administration of investment mutual funds is governed by the Act No. 385/1999 Z.z. on collective investment as amended. The basic characteristic mark of mutual funds is the administrative and accounting separation of a fund's assets from the business of the fund management company. This means that in the case of any financial or other problems the fund management company has, these problems are not transmitted over into the activity and business for individual mutual funds, which are themselves an independent subject and are untouchable even for an executor. Assets in the mutual fund are not the property of the fund management company, there may not be provided from them donations, financial loans, or in any other way guarantee the liabilities of other entities. Strict definitions apply also to everything that a fund management company can acquire into the assets of a mutual fund – the majority of

Development of the mutual fund industry since 1999

Period (as at end of period)	Open-ended mutual funds (OEF) of AAMC members				Closed-ended mutual funds (CEF) of AAMC members	
	No. of OEF		Net asset value (NAV) of dom. OEF (SKK)	Cumulate net sales of foreign OEF (SKK)	No. of CEF	Net asset value (NAV) of CEF (SKK)
	Domestic	Foreign				
4.Q 1998	9	0	686 889 000			
1.Q 1999	10	0	923 793 000			
2.Q 1999	9	0	1 277 421 000			
3.Q 1999	9	0	1 456 563 000			
4.Q 1999	11	0	1 993 528 000		55	1 856 002 000
1.Q 2000	12	3	2 368 555 000	N/A	N/A	N/A
2.Q 2000	15	6	2 994 348 000	N/A	N/A	N/A
3.Q 2000	15	6	3 767 723 000	N/A	55	1 459 382 000
4.Q 2000	18	39	4 274 145 000	497 560 000	57	1 521 223 000
1.Q 2001	21	57	4 704 167 000	779 179 000	60	1 682 994 000
2.Q 2001	27	53	5 102 239 000	767 226 000	53	1 671 889 000
3.Q 2001	23	67	5 326 195 000	1 296 145 862	54	1 733 513 000
4.Q 2001	33	73	6 223 812 000	1 653 728 000	54	1 810 285 000
1.Q 2002	34	77	6 995 676 000	1 907 910 000	54	1 814 807 690
2.Q 2002	35	77	8 065 388 001	2 145 023 708	54	1 856 621 678

the assets must be formed from securities listed on the stock exchange. Adherence to the rules on the limitation and distribution of risk are under the continual supervision of the Financial Market Authority, which is in the case at even only signs of their violation authorised to effectively intervene. In discharging state supervision the Authority is authorised to require from entities subject to supervision data, documents and information necessary for the due discharge of this supervision, in the scope essential for the discharge of state supervision. The Authority is in the discharge of state supervision obliged to take particular care to protect the interests of mutual fundholders and to proceed in a manner so that the of rights and interests protected by statute and subject to this supervision are not affected. For breaching the Act the Authority is authorised to impose upon the fund management company a fine up to the amount of SKK 10 million.

Moreover, no operations with assets in a mutual fund may be performed by the fund management company directly. Here there exists control from the side of the depository, which according to the law may only be a bank or branch of a foreign bank. It is mandatory in performing its activity to control:

a) The correct determination of the value of assets acquired into the property in the mutual fund and the fund management company or sold from the property in the mutual fund and fund management company in accordance with this law,

b) Compliance with the rules on and the limitation and distribution of risk,

c) Adherence to procedure in issuing and submitting mutual certificates for payment, which is performed by the fund management company in accordance with this Act and with mutual fund statute,

d) The calculation and payment of remuneration to the fund management company for administration of the mutual fund,

e) Compliance of the use of revenues of the mutual fund with the Act, with statute and with the sales prospectus of the mutual fund.

The depository also has a decisive role in minimising the risk of fraud or fraudulent asset stripping of the mutual fund. It too supervises whether a mutual fund realises the purchase and sales of securities for the best prices that may be achieved in favour of the mutual fund. If an administrator, the fund management company, insists on an instruction which is to the detriment of mutual fundholders, the depository shall not only not perform this instruction, but also has the obligation to notify the supervisory body of this fact, and this under the threat of high a financial penalties for not doing so. Such a dual system of control upon mutual funds lowers to the maximum possible extent the risk of harm to the mutual fundholder and makes licensed mutual funds one of the safest investments on the financial market.

When speaking in connection with mutual funds about risk, this does not mean a threat to the safety of the invest-

ment. By this we mean that it is not possible to determine in advance, how the value of a unit will develop. Its course is determined solely by the market in which the assets in the property of the fund are traded. According to this we can discern also several basic categories of funds, which are differentiated through their level of risk that the investor takes on when entering them. Here applies the well-known lesson on the direct rule of proportion between the risk taken on and the possible revenue of the investment. The investor should thus know well, how large a risk he/she is willing to take on, how long he/she is willing to bear a loss and for how long he/she is willing to surrender the money, which he/she has decided to invest.

Money market funds

These invest in short term financial instruments on the money market. These funds guarantee minimum risk, to which however there pertain also lower yields in comparison with other types of funds. Investing in money market funds is suitable also for investors with previous experience. These funds have very low, often even zero entry and exit fees, so it pays to invest in these even for the short-term. Mostly they achieve a higher efficiency than short-term time deposits in banks, where the money is available without any penalty fees within 14 days following the submission of a request for resale.

Bond Funds

These invest mutual fundholders' money primarily in bonds. Sometimes they invest also a small share of their assets in equities. Usually they bring the investor a higher yield than money market funds, they are however somewhat riskier. They are suitable for people who want to invest money for at minimum one year, though with regard to the fees, they bring an attractive rate of appreciation only after approximately two or three years. They represent a suitable alternative to long-term term deposits in a bank.

Equity Funds

Equity funds invest at least two-thirds of their assets in shares. These funds are the riskiest of all funds, on other hand however they have the potential for higher growth. They usually bring a higher yield from the long-term perspective; therefore they are a suitable investment only for investors with an investment horizon above five years, by which they can ride out the possible fluctuations and falls in the value of the unit. Equity funds maybe aimed at one or more sectors of the economy. There are funds that invest for example exclusively in the shares of technology firms – in this case we are talking about equity technology funds. Similarly we can speak of pharmaceutical, telecoms, biotechnology, etc equity funds. A counterpart



to such a single sector equity funds are multiple sector funds, which do not operate in simply one sector, but through diversification distribute their risk among several economic sectors. It is always true that the more tightly and equity fund is focused, the greater potential yield or loss, since the risk is borne by the investor alone.

Balanced Funds

Mutual fundholders invest in various markets and in various assets; in this they do not have any limits for the share of bonds or equities in their portfolio. Therefore the investor should in advance know the fund's strategy and its composition. Balanced funds are something of a middle way between risky equity and conservative bond funds. They offer the investor medium yields at a medium risk, and their investment horizon should be at least three years.

Funds of funds

Most of their assets are invested in mutual certificates and shares of other investment funds. Among their main advantages is a relatively low level of risk, which results from their greater distribution of investments. The fundholder in this way can invest also a smaller amount in funds, which otherwise would require a high entry investment. Current Slovak legislation does not allow the creation of this type of fund, though it is possible to invest in them through foreign fund management companies represented in the Slovak market.

It is clear that conservative types of funds most suit the nature of the Slovak investor, while these however do not bring greatly above average yields, nevertheless the risk of a significant fall in their value is minimal. This category includes in particular money market and bond, as well as partially also balanced mutual funds. The highest net sales therefore at present are recorded in true money and bond funds, while as a consequence of the persistent crisis in equity markets the sale of equity funds is relatively subdued.

At present nine domestic fund management companies operate in the market. Apart from the company Proficont správ. spol., a.s. these are all member companies of AAMC. Foreign fund management companies are represented in the Slovak market by means of affiliate members of AAMC. The number of foreign funds is today already

Summary of the net sales of individual categories of mutual funds in the first half of 2002 and their overall market share.

	Net sales for 1st half of 2002	Market share as at 1st half of 2002
Money market funds	1 011 671 347 Sk	12.64 %
Bond Funds	718 910 387 Sk	34.96 %
Balanced funds	544 512 322 Sk	32.79 %
Equity funds	203 284 022 Sk	18.89 %
Funds of funds	13 237 462 Sk	0.72 %

twice the number of domestic funds and in future it is clear that this will grow significantly. The same however cannot be said of the level of net sales, where to the contrary domestic fund management companies are dominant. Their advantage is in particular a more effective distribution network and in the case of bank subsidiaries also a strong background in the form of their extensive clientele as future potential mutual fundholders.

The collective investment industry in Slovakia is still in its early stages and the value of assets in mutual funds of all domestic investors may be likened to the size of an average foreign fund. Fund management companies look to the future however with unconcealed optimism. Gradually falling interest rates, the huge share of savings in savings of the population in term deposits in banks, pension reform – all this justifies the AAMC in its claim that the real boom for mutual funds still awaits them.

Market share of domestic fund management companies as at 30. 6. 2002

Fund administrator (AAMC member)	Net value of assets under administration	Market share
Prvá penzijná	3 820 895 093 Sk	47.37 %
Tatra Asset Management	3 056 584 545 Sk	37.90 %
VÚB Asset Management	978 104 361 Sk	12.13 %
Sporo Asset Management	962 509 618 Sk	11.93 %
J&T Asset Management	425 405 766 Sk	5.27 %
AMSLICO AIG Funds	377 753 695 Sk	4.68 %
Istro Asset Management	271 705 091 Sk	3.37 %
Investičná a Dôchodková správ. spol.	54 054 547 Sk	0.67 %
Total	8 065 388 003 Sk	

Market share of foreign fund management companies in the SR as at 30. 6. 2002

Fund administrator (AAMC member)	Net sales in SR	Market share
WIOF (SFM Group)	879 837 409 Sk	41.02 %
Veritas (ATS Brokers)	394 628 162 Sk	18.40 %
KBC (ČSOB)	309 514 766 Sk	14.43 %
Capital Invest (HVB Slovakia)	259 904 841 Sk	12.12 %
Volksbanken (Ludová banka)	201 100 684 Sk	9.38 %
Pioneer	67 143 375 Sk	3.13 %
Invesco (HVB Slovakia)	32 714 463 Sk	1.53 %
ŽB-Trust	180 008 Sk	0.01 %
Total	2 145 023 708 Sk	