COLLECTIVE INVESTMENT IN SLOVAKIA

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The autumn professional conference focused on collective investment issues is now becoming something of a tradition. This year the Association of Asset Management Companies (AAMC) joined forces with the magazine Investor and together welcomed all those from the field of collective investment and mutual funds on 4th - 5th October at the conference "Collective Investment in Slovakia 2002" in the town Jasná pod Chopkom in the Low Tatras. A number of interesting topics had been prepared for those attending the conference, which were presented by recognised experts from the broad spectrum of the financial market.

The primary aim of the conference was to provide a comprehensive overview to attendees on the possibilities of collective investment, to analyse the factors influencing the performance of mutual funds in individual categories, to evaluate global trends and present selected segments, subjects and relationships in the financial market. No less important however is the social side of such undertakings and informal discussions after the official programme of lectures.

Among the regular participants at collective investment conferences are advisers and mutual fund sales persons from banks, asset management companies, investment intermediary networks, insurance companies and securities dealers. A large number of those attending the conference were however, also members of the management of companies fancying such an event as a welcome opportunity for meeting colleagues or friends from (otherwise competitor) companies in an atmosphere detached from the usual stressful working day.

The programme for the first day of the conference was focused on individual categories of mutual funds, the instruments in which mutual funds invest and the criteria according to which the success or otherwise of funds may be judged. A presentation by Martin Ďuriančík senior portfolio manager of the company Tatra Asset Management was devoted to the subject of money funds. He concentrated on the characteristics of money funds, the investment strategy of money market funds, factors influencing their performance and individual risk factors. The investment strategy in the case of money funds is aimed at achieving maximum, though while stable appreciation in the short-term horizon, and while maintaining a very conservative investment approach and a high degree of security. The essence of managing the portfolio of a money fund therefore lies in particular in its immunisation, optimisation of interest rate risk and modification of the duration of the portfolio with regard to expected market developments.

The subject of bond funds was presented by Gabriel Hinzeller, a member of the board of directors of VÚB Asset Management. In the case of bond funds it is important to recognise factors influencing the development of the value of a bond fund (interest rate risk, exchange rate risk), time value and risk, duration and factors influencing duration. It is necessary to understand duration as the basic instrument for measuring and managing interest rate risk, where a greater duration usually means also higher risk. The maturity of a bond has an influence on the value of the duration (the longer the maturity, the longer the duration), the bond yield (higher yield means a greater duration), the amount of the coupon payment of the bond (the lower the coupon payment, the greater the duration) and the frequency of pay-outs of a bond coupon (increased frequency means decreased duration).

Attention was also given to equity funds and the basic terms from this field. Slavomír Steigauf, private banking department manager at Ľudová Banka, gave a breakdown in his contribution of the individual types of equity funds, their investment styles, a classification of investment strategies according to various criteria together with examples of successful strategies of legends such as B. Graham, P. Lynch, W. Buffet, W. O'Neil. Equity markets are an incessant battle of bulls and bears, where managing successfully in a bull market especially requires that a fund's management be guided by certain principles. According to Slavomír Steigauf such principles can be seen as a refrain to impulsive actions, utilising regular saving (the so-called dollar cost averaging), diversifying investments sufficiently, not making hurried changes in the portfolio and maintaining an overall perspective, i.e. following long-term goals.

After a session devoted to the individual fund categories there followed a talk by the director of ABN AMRO Asset Management, Daniel Gladiš focused on the identification of possible mistakes in investing, showing how these arise in typical situations. The first mistake is "speculation instead of investment", where investment may be considered as an operation that on the basis of detailed analysis promises security of the deposit and an appropriate yield. In the opposite case this is always simply speculation. The second mistake is "investing in a market instead of in individual companies", because to purchase the market as a whole is in Daniel Gladiš's view highly speculative. A further mistake is "betting on future growth" since long-term estimates of growth are subject to a wide error margin and above-average growth must sooner or later come to a halt. In the process of investing mistakes are often made in "yielding to the crowd phenomenon", as we have recently witnessed, for example in the case of internet companies.

A talk on qualitative and quantitative analyses of mutual funds, methods for measuring their performance and risk adjusted performance of funds with the aim of assessing the quality of the mutual fund's management was given by Peter Šimčák of the company Moneco. The motto of his lecture was "get to know first, then evaluate". Fulfilling this principle requires an evaluation of credit, interest, currency and asset risk. The quantitative analysis itself of a mutual fund then comprises an examination of the absolute and relative performance of the fund, risk (measured volatility, maximum loss for a certain period, duration of a fall or the Beta Coefficient), as well as other indicators in the form of the Sharpe Ratio, the Treynor Ratio, the Information Ratio and the Alpha Coefficient.

The second day of the conference had a boarder focus. The opening talk was given by Roman Vlček, chairman of the board of directors of Sporo Asset Management. He explained where risks lie in investing and what portfolio theory concerns. The fundamental requirement for investing is maximisation of yield and minimisation of risk, where the aim is to achieve the optimal compromise between these two variables. A reduction of risk through diversification can be achieved via a portfolio approach, meaning that through a combination of a certain number of securities in a portfolio a certain level of stabilization in incomes can be achieved without a reduction in the expected yield. Defining risk limits needs to be understood as the setting of a minimum yield, the tactical and strategic investment horizon, short positions, sector limits as well as limits for individual countries and issuers.

A talk on the current topic of reform of the pension system and pension funds was given by Vladimír Baláž, a scientific employee of the Slovak Academy of Sciences and the company Servisbrokers. He asked what the long-term appreciation of investments in pension plans might realistically be. Several factors affect the success of pension reform. An important factor will, for example, be the form of asset management, its administration and management costs. The level of yields on world and domestic financial markets will be even more important and realistically expectations should not be above the level of 3 - 4% annually. Forming a backdrop to capital market yields will be the performance of the Slovak economy itself, where the resources for long-term economic growth are the workforce, fixed assets and the application of new knowledge and technologies. In Vladimír Baláž's view Slovakia can achieve above-average growth only when it begins to make greater efforts to introduce new technologies and know-how.

Roman Scherhaufer of Across Investment Services gave a speech on how portfolios are created of mutual funds (fund packages) and what characterises professional investment advice. In packaging funds it is essential to categorise them in detail according to the characteristics of the investment instrument. The role of the investment advisor is then to assess the investment profile of a client, determine his/her investment horizon and with regard to the amount invested assign to it a pre-prepared mixed portfolio of mutual funds on the basis of the profile thus calculated.

Oľga Dlugopolská, analysis department manager at the Bratislava Stock Exchange described to the conference audience the Stock Exchange, its membership principles, trading and clearing of stock operations. The securities market is broken down into the listed main, listed parallel and free market. The criteria for stating a security on the individual markets differ, where in all cases the greatest emphasis is placed in particular on the issuer fulfilling the defined information duties. Only members of the Bratislava Stock Exchange may be parties to a securities operation, the client itself (buyer or seller) effecting the transaction via a Stock Exchange member. A transaction can have the form of a price-setting trade, a negotiated trade or a repo trade.

The topic of the last talk was unit-linked life assurance, which combines both elements of risk insurance and collective investment and is an example of how individual financial market products can be connected and combined. This issue was covered by Michal Šubín, director of SFM Slovakia. Unit-linked life assurance can in principle be tied either to an insurance company's own funds (which it or may not be possible to buy freely) or to outside funds that are under the administration of a professional asset management company. Unit-linked life assurance is not, in Michal Šubín's view, a substitute for classic or capital life assurance, but rather a necessary result of developments in the life assurance market, where there has begun to arise the need for combining philosophies of covering life and investing via the capital markets.