



The Determinants of Mutual Funds Performance in Russia

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April 2014

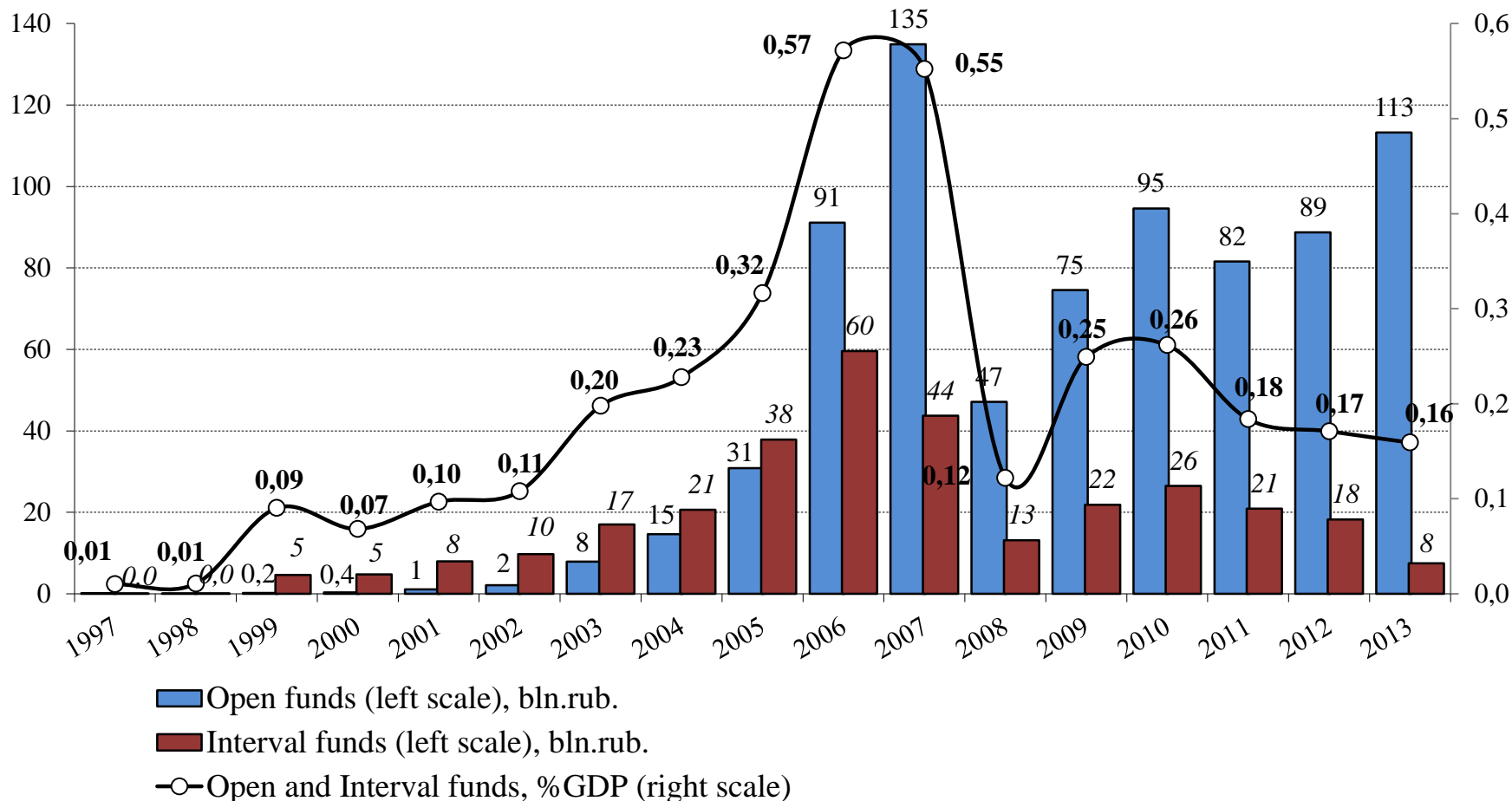
Motivation

- First mutual funds appeared in Russia 18 years ago, however, questions of their economies stayed outside of academic research interest area
- The deficit of academic researches influences negatively on the investors and regulator attitude to the collective investment market in Russia
- Typical example: lack of any mention of mutual funds in the State Program of the Russian Federation
“Development of financial and insurance markets, the creation of an international financial center”

Introduction

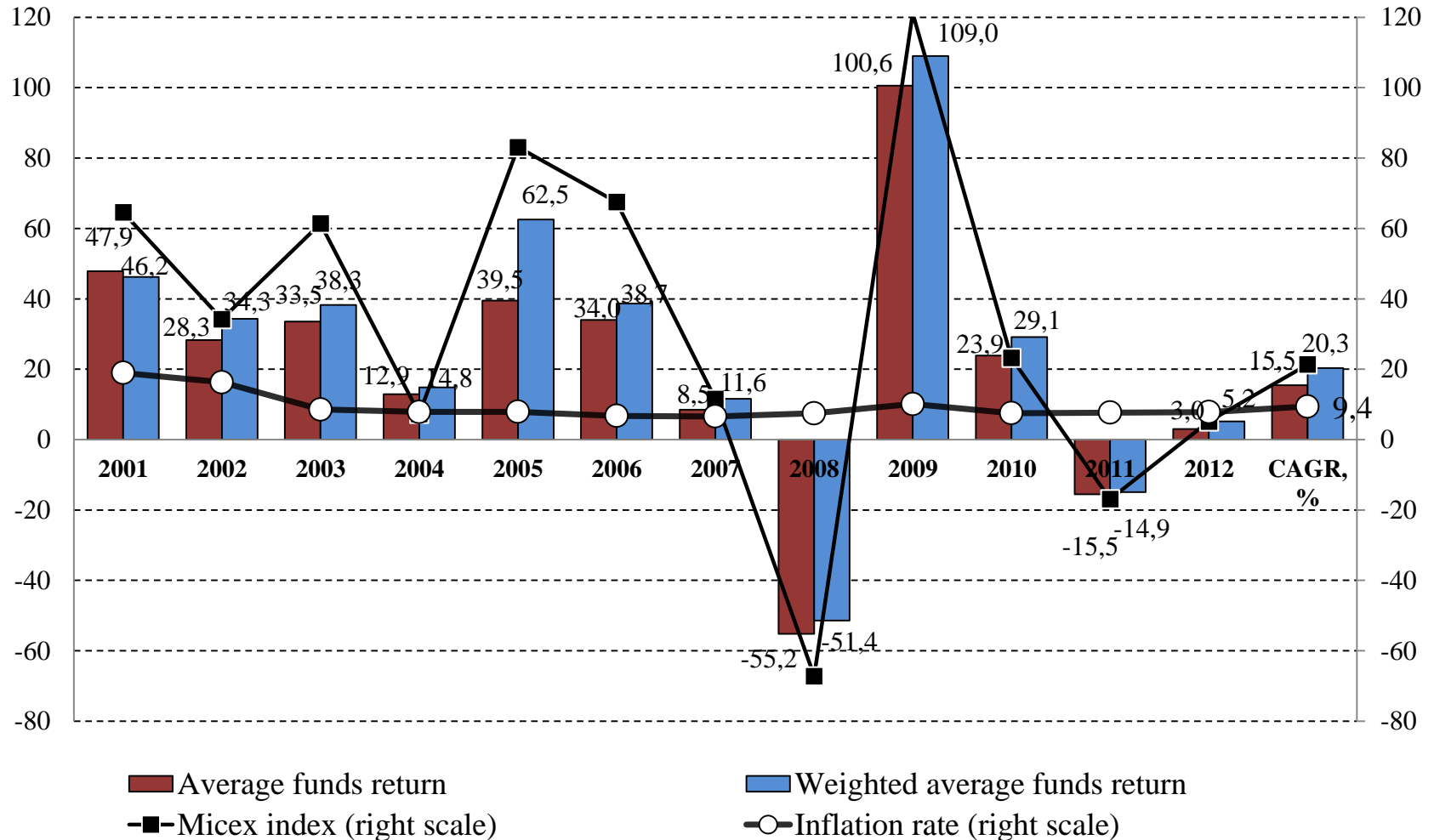
- **Goal:** Determine main tendencies in mutual funds performance in Russia and find factors which affect an MF's excess return and net flow
- **Innovation:** Unique Data-Base
- **Main Result:** Sizes of excess returns and net flow Russian MF follow the same laws as their foreign counterparts but have not yet realized their potential

Mutual funds in Russia in 1997-2013



Source: Author's own calculations based on data of the Central Bank of Russia and the National League of Managers

Nominal average return of mutual funds, MICEX index and inflation rate, percent per annum



Source: Author's own calculations based on data of the National League of Managers, the Moscow Exchange MICEX-RTS and the Central Bank of Russia

Data

- 709 Mutual Funds (MF)
 - equities, indexes - 334
 - bonds, money market, mixed investments - 375
- Period: 2007-2012 years
- Excess Returns and Net Flows
- Characteristics of MF and Management Companies – 23 factors

MF Performance Characteristics

Excess return

- $R_{it} = r_{it} - \mathbb{I}_{Index}i_t - \mathbb{I}_{GovBond}b_t$

$$\mathbb{I}_{index} = \begin{cases} 1, & \text{for equity and index funds} \\ 0, & \text{otherwise} \end{cases}$$

$$\mathbb{I}_{GovBond} = \begin{cases} 1, & \text{for bond funds, money market funds and funds of mixed investments} \\ 0, & \text{otherwise} \end{cases}$$

- $R_{it} = \alpha_i + \beta_{0i}RM_t + \beta_{1i}SMB_t + \beta_{2i}HML_t + \beta_{3i}MOM_t + \varepsilon_{it}$

- R_{it} - return in Russian rubles of fund i in excess of the 1 month Russia government bond in month t ;
- RM_t - excess return in Russian rubles on the market,
- SMB_t (small minus big) - average return on the small capitalization portfolio minus the average return on the large capitalization portfolio;
- HML_t (high minus low) - difference in return between the portfolio with high book-to-market stocks and the portfolio with low book-to-market stocks;
- MOM_t (momentum) - difference in return between the portfolio with the past 12-month winners and the portfolio with the past 12-month losers.

Net flow – net change in share structure during the year (sale-buying)

<u>Excess return</u>	Equity and index funds			Bond, money market and mixed investments funds	
	(1)	(2)	(3)	(4)	(5)
TNA	1.053* [0.2128]	3.988*** [1.1062]			
Fund age	-1.015*** [0.3275]	-2.273*** [0.6264]	-0.084*** [0.025]	0.890*** [0.1641]	1.968*** [0.2263]
Total management costs	-0.136*** [0.0383]	-0.217*** [0.0499]	-0.055*** [0.0189]		-0.041*** [0.0056]
Other costs	5.595* [3.0231]	9.749** [4.3246]			2.542* [1.4104]
Current net flow	0.004*** [0.0014]	0.002* [0.0012]	0.0009** [0.0004]		
Portfolio turnover	0.003** [0.0015]	0.003** [0.0012]			
Number of funds	-1.364*** [0.0339]	-1.418*** [0.4877]			-1.679*** [0.2915]
Share of MC in total value of pension reserves and savings under control	0.110** [0.0572]	3.002*** [0.9035]		1.846* [1.0646]	6.396*** [2.0139]
Share of net profit MC in equity capital	2.350*** [0.5892]	3.067*** [0.8955]		0.071*** [0.0197]	0.077*** [0.0203]
Management company revenue growth rate	-0.094 [0.0569]	-0.148** [0.0607]	-0.083** [0.0411]		
Frequency of citation	-0.006* [0.0027]	-0.045*** [0.0101]	-0.004** [0.002]	-0.004*** [0.0012]	-0.018*** [0.0046]
Excess return in previous period	-0.170*** [0.0087]	-0.205*** [0.0095]	0.426*** [0.0094]	-0.257*** [0.0125]	-0.318*** [0.0108]
Management fee			0.402*** [0.123]	2.001*** [0.4314]	1.479** [0.6389]
Other Controls	Yes	Yes	Yes	Yes	Yes
Group of intermediaries	Indifferent		Indifferent	Indifferent	
Time-fund fixed effect	No	Yes	No	No	Yes
Num. of observation	2004	2004	924	2250	2250
Adj, R ²	0.17	0.21	0.09	0.24	0.25

Significance level: *** - 1%, ** - 5%, * - 10%

Net flow	Equity and index funds			Bond, money market and mixed investments funds	
	(1)	(2)	(3)	(4)	(5)
Factor					
Current excess return	0,254*	0,122*			
	[0,1486]	[0,0725]			
Excess return in previous period			-0,543***	0,219*	
			[0,1394]	[0,1129]	
Net flow of a previous period	-0,015*	-0,192***	-0,027*		-0,199***
	[0,0078]	[0,0084]	[0,0151]		[0,0051]
Markup through the management company up to 30K rubles	-2,916*		-1,615*	-3,829**	
	[1,7598]		[0,9331]	[1,4948]	
Discount size at the share redemption, more than one year	3,848**		4,279**	1,088*	
	[1,5198]		[1,949]	[0,6509]	
Markup through the agent up to 30K rubles			1,623*	5,077*	
			[1,0419]	[2,8896]	
Frequency of citation	0,043*	0,014**	0,099***		
	[0,0252]	[0,0071]	[0,0354]		
Fund age	-9,738**	-3,104**	-1,873*	-3,705*	
	[3,8545]	[1,3571]	[0,9622]	[1,9332]	
Number of funds	2,452*	5,754*		-3,407**	
	[1,4378]	[3,3451]		[1,5567]	
Equity capital of management company		-2,015*	-1,133*		
		[1,1669]	[0,6556]		
Other Controls	Yes	Yes	Yes	Yes	Yes
Group of intermediaries	Indifferent		Indifferent	Indifferent	
Time-fund fixed effect	No	Yes	No	No	Yes
Num. of observation	2004	2004	924	2250	2250
Adj. R ²	0,11	0,14	0,12	0,08	0,14

Significance level: *** - 1%, ** - 5%, * - 10%

Major Findings

- MF in Russia are not received sufficient financing from private investors and pension funds
- Net asset value of Russian MF remains small, that does not allow economies of scale to realize its potential
- During 2001-2012 average return on the aggregate portfolio of MFs in different categories won the inflation, but loosed to the MICEX index.
- An increase of MF size and reduction of overall fund administering costs could help significantly reduce the gap between the return of the total portfolio of MF and the index return
- Russian MF and their investors largely follow the same regularities as their foreign counterparts
- Industry of the collective investments mainly performs at the proper level the same function as in the worldwide



Thanks for your attention!