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Russian Investment Funds and Globalization

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Abstract
The paper provides the characteristics of the types and categories of the Russian investment funds. It describes the constraints applied to the activities of management companies. The paper also observes the directions in which globalization affects the activities of the Russian investment funds in non-standard economic conditions.

Keywords
Investment funds, management companies.

Introduction

The first investment funds appeared in Russia in 1992. They were called specialized (voucher) privatization investment funds and were established for the purpose of their participating in privatization processes. A considerable part of such special privatization securities – privatization vouchers – were accumulated in these funds (Milovidov, 1996). The management companies of such investment funds gained some experience of collective investment management. By the end of the privatization in 1994, most of the specialized (voucher) privatization investment funds ceased to exist (Gorlovskaya & Miller, 2010). The first mutual investment funds appeared in the Russian Federation in 1996. Their operating rules were significantly changed in 2001 due to the adoption of the Federal Law № 156-FZ "On Investment Funds" (The Federal Law, 2001). Currently, there are 6 joint-stock investment funds (similar to corporate funds in foreign practice) and 1381 mutual investment funds (similar to mutual funds in foreign practice) in the Russian Federation. These funds are run by 396 management companies (Central Bank, 2015a).

Commercial banks compete with investment funds. They offer investors traditional deposits and non-state pension funds.

In the studies of the Russian investment funds, the following areas should be highlighted:

- the consideration of the regulatory issues of investment funds by the state regulator and the self-regulatory organizations of management companies (Milovidov, 1996; Kapitan & Baranowski, 2007; Alexandrov, Motrunich, & Shakhurin, 2014; Semenova, 2014),
- the study of the behavior of the investors who invest in mutual investment funds (Ivanitskii & Melnikov, 2000; Aizin, 2007; Belova, Kapitan, & Lekarev, 1999; Khmyz, 2010),
- the development of techniques for managing investment funds on the basis of an analysis of the features of the various types and categories of investment funds in Russia as well as methodological developments (Bark, 2004; Bogdanov, 2007; Volkova, 2005; Lukyanova & Nechaev, 2007),
- the study of the effectiveness of mutual investment funds companies in the different stages of the Russian securities market development by the types of such investment funds (Abramov & Akshentseva, 2014; Seltzer, 2006; Lukashin, 2011a, 2011b; Osipova, 2010a, 2010b; Sadkova, 2005; Hromushin, 2001),

- the study of the risks associated with collective investments (Boldireva, 2005, 2006, 2010; Galanov, 2007, 2008),
- the impact of globalization on the collective investments market is studied in the works of Mirkin (2002, 2011) and Nagornykh (2014).

In this work, the effect of globalization on the activities of the Russian investment funds in unusual economic conditions is determined. For this purpose, the Russian investment funds managed by the largest management companies have been analyzed.

1. Types of investment funds in the Russian Federation

Joint-stock investment funds are not common in the Russian Federation. This is facilitated by the following factors:

- the complicated procedure of the establishment of a joint-stock company,
- the fact that it is necessary that not only management companies, but also investment funds should obtain a license from the mega-regulator, i.e. the Bank of Russia,
- a lack of the guaranteed payment of dividends to shareholders, because a fund has the right to only issue ordinary shares, the dividend of which is not guaranteed, and
- a lack of tax incentives. As a legal entity, a joint-stock investment fund pays tax on its profits, and investors pay tax on their personal income upon receipt of their dividends.

Therefore, joint-stock investment funds are usually a “closed club” which does not disclose information publicly. In addition to including traditional financial instruments, the portfolios of such investment funds usually also include a real estate. The joint-stock companies’ investors’ actual income accounts for the difference between the liquidation value of the ordinary shares and the purchase prices at the establishment of the fund (Boldireva, 2010).

Mutual investment funds the most popular funds in the Russian Federation.

A mutual investment fund is a property complex without creating a legal entity, which is controlled by a management company. Mutual investment funds are created to increase the invested funds of investors (the owners of investment shares). In the Russian Federation, mutual investment funds are divided into open-end, interval, closed-end and exchange mutual investment funds.

A mutual investment fund is referred to as an open-end fund if a management company undertakes an obligation to repurchase its issued investment shares at the request of the investor within a period not exceeding 15 days from the date of the submission of a redemption application. A mutual investment fund is called an interval fund if the management company undertakes an obligation to carry out the redemption of its issued investment shares within a period not shorter than once in a year. A closed-end mutual fund is created for a specified period, after which its investment shares are canceled. During the time of the operation of such a fund, a management company does not redeem its investment shares. When Russia is concerned, there is a new type of an investment fund known as an exchange investment fund (similar to an exchange traded fund). Such funds’ shares are listed on the Moscow Stock Exchange. The conditions mandatory for the inclusion of the investment shares of a mutual investment exchange fund in the quotation list of the first level of the Moscow Stock Exchange are as follows:

- a market-maker, working with investment shares, should be present on the spot,
- a management company should ensure the purchase points for the investment shares of a mutual exchange fund in not fewer than 7 federal districts of the Russian Federation. (There are only 9 federal districts in the Russian Federation) (Moscow Exchange, 2015).

The initiator of the establishment of a mutual investment fund is the management company the holder of a special license issued by the Bank of Russia. It registers the rules of a mutual investment fund with the Bank of Russia and issues investment shares. In order to register investors' rights to investment shares, such a management company signs a contract with the registrar of the safety of the fund’s assets. It is a contract with a specialized depository.

2. Investment funds’ assets

Each investment fund has its own investment declaration, i.e. the document describing the purposes of the fund and the investment policy of the management company. The declaration of the investment of the mutual investment fund should include the following information:

- a description of the objectives of the investment policy of the mutual-fund management company,
- a list of investment objects;
- a description of the risks connected with investing in these investment objects,
- requirements for the mutual investment fund's asset structure.

It should be noted that investment funds' assets can be divided into specific and total ones. Total assets are assets constituting any investment fund's portfolio. Such assets include:

a) cash funds, including a foreign currency,
b) the state securities of the Russian Federation and the state securities of the subjects of the Russian Federation; municipal securities, if such securities were listed on a stock exchange or had a credit rating not below the "BBB-", rated by such rating agencies as "Fitch Ratings" or "Standard & Poor's", or not below the "Baa3" rating, according to the classification of the "Moody's Investors Service" rating agency,
c) the shares and bonds of Russian economic societies,
d) the securities of foreign governments and international financial institutions, provided that the information on applications for the purchase and/or sale of such securities are/is placed by such news agencies as Bloomberg or Thomson Reuters; or on condition that such securities are traded on the stock exchange as well as in case the issuer of such securities is rated with a long-term credit rating not lower than the "BBB-", rated by such rating agencies as "Fitch Ratings" or "Standard & Poor's", or not lower than the "Baa3" rating, according to the classification of the "Moody's Investors Service" rating agency,
e) the shares of foreign corporations and the bonds of foreign commercial organizations, foreign depository receipts, if such securities were listed on one of the following stock exchanges: American Stock Exchange; Hong Kong Stock Exchange; Euronext Amsterdam, Euronext Brussels, Euronext Lisbon, Euronext Paris; Moscow stock exchange; Irish Stock Exchange; BME Spanish Exchanges; Borsa Italiana; Korea Exchange; London Stock Exchange; Luxembourg Stock Exchange; Nasdaq; Deutsche Borse; New York Stock Exchange; Tokyo Stock Exchange Group; Toronto Stock Exchange, TSX Group; Swiss Exchange; Shanghai Stock Exchange,
f) the investment shares of mutual investment funds,
g) the mortgage securities issued in accordance with the legislation of the Russian Federation on mortgage securities,
h) Russian depositary receipts (RDR),
i) the property rights of option agreements (contracts) and futures agreements (contracts) (excluding index funds) (Order of the Federal Financial Markets Service of the Russian Federation from 28.12.2010 № 10-79, 2010). Specific assets allow funds to be divided into fifteen categories.

3. Mutual investment funds categories

Depending on the content of the investment declaration and the characteristics of the composition and structure of portfolios, the following categories of funds can be established in the Russian Federation:

1) a money market fund (a substantial share in the fund's portfolio belongs to the cash funds and debt securities maturing up to 1 year),
2) a bond fund,
3) a share fund,
4) a mixed investment fund,
5) a direct investments fund (the fund's portfolio may include shares in the authorized capital of Russian companies with a limited liability),
6) a high-risk (venture capital) investment fund (the portfolio of which fund may include low liquidity, but potentially high-yield securities),
7) a fund of funds (whose portfolio may include the shares of joint stock investment funds and the investment units of mutual investment funds; foreign investment funds' shares, with the exception of foreign investment funds' shares which stand for a fund of funds in accordance with the personal law of the foreign issuer; Russian and foreign depository receipts for foreign investment funds' shares, with the exception

of such shares of foreign investment funds that represent a fund of funds in accordance with the personal law of the foreign issuer),

8) a rental fund (the portfolio of such a fund includes a real estate and the right of its rent),
9) a real-estate fund (whose portfolio includes a real estate and the right of its rent. It also includes property rights under contracts, on the basis of which the construction (creation) of such real estate objects is implemented; the rights of the land rent; the stocks or shares of Russian business entities dealing with the designing and construction of buildings and structures, engineering surveys for the construction of buildings and structures, and (or) the restoration of cultural heritage (historical and cultural monuments)),
10) a mortgage fund (the portfolio of such a fund may include mortgage bonds certifying the rights of the mortgagee on mortgage-secured credit or loan agreements and mortgage contracts; the mortgage securities issued in accordance with the legislation of the Russian Federation on mortgage-backed securities),
11) an index fund (with an indication of the index). The portfolio of this fund only includes:
    a) cash funds, including a foreign currency in the accounts and in deposits at credit institutions,
    b) such securities on the basis of which a corresponding index is calculated.

Investment funds' assets (belonging to the category of index funds, whose stocks and investment shares are intended for qualified investors) may include foreign financial instruments which help calculate the following indices: S&P Global 1200 Index; S&P Global 100 Index; MSCI EAFE Index; MSCI EAFE Growth Index; MSCI EAFE Value Index; Dow Jones Global Titans 50; FTSE High Dividend Yield Index; S&P Global Industrials; MSCI EMU Index; MSCI Europe Index; MSCI Pan-Euro Index; Dow Jones Euro STOXX 50; S&P Europe 350 Index;

12) a credit fund (whose assets may represent cash requirements on credit or loan agreements, the performance of the obligation regarding the same being secured by collateral, a guarantor or a bank guarantee; they may also be a property in a form of a pledge subject in accordance with the civil legislation of the Russian Federation),
13) a commodity market fund (the assets of this fund are precious metals),
14) a hedge fund (It is a fund of high-risk investments. Its portfolio includes precious metals, including requirements for the credit institution to pay their cash equivalent at the current rate; the property rights from option agreements (contracts) and futures agreements (contracts), the basic assets of which agreements are commodities; illiquid securities).
15) an artistic values fund. This fund's assets may include:
    - hand-made paintings and drawings made on any basis and from any materials,
    - original sculptural works from any materials, including relieves,
    - original artistic compositions and montages made from any materials,
    - artistically designed objects of a cultural purpose, in particular icons,
    - postage stamps, other philatelic materials, either singly or in collections,
    - engravings, prints, lithographs and original printed forms,
    - works of decorative and applied arts, including pieces of art made from glass, ceramics, wood, metal, bone, cloth and other materials,
    - photographic, sound, film, video archives,
    - old books, publications of special interest (historical, artistic, scientific and literary), including rare manuscripts and documentary monuments,
    - unique musical instruments,
    - ancient coins (Order of the Federal Financial Markets Service of the Russian Federation from 28.12.2010 № 10-79, 2010).

The quantitative composition of the Russian mutual investment funds is shown in Table 1 below.

Table 1 The quantity of the mutual funds on 26th January 2015

Category of fund	Open-end	Interval	Closed-end	Total number
Share funds	146	16	25	187
Bond funds	78	0	1	79
Mixed investment funds	83	15	34	132
Money market funds	10	0	0	10
Index funds	24	0	0	24
Funds of funds	44	1	0	45
Commodity market funds	Not provided	6	0	6
Hedge funds	Not provided	8	13	21
Mortgage funds	Not provided	Not provided	4	4
Artistic values funds	Not provided	Not provided	1	1
Venture capital funds	Not provided	Not provided	54	54
Real estate funds	Not provided	Not provided	571	571
Direct investment funds	Not provided	Not provided	102	102
Rental funds	Not provided	Not provided	79	79
Credit funds	Not provided	Not provided	66	66
Totally:	385	46	950	1381

Source*:* National League of Management Companies, 2015a

4. Restrictions on the activities of mutual investment funds management companies

The restrictions concern:

- the distribution of assets in the investment portfolio of a fund between the classes of financial instruments (stocks, bonds, derivatives, real estate),
- the industrial affiliation of financial instruments in the fund portfolio (there are restrictions on the purchase of the securities of the companies in the financial sector),:
- the determination of potential investors (there are categories of portfolios solely intended for qualified investors). The quantitative composition of the funds intended for qualified investors is accounted for in Table 2.

Table 2 Funds for qualified investors on 2nd June 2015

Category of fund	Open-end	Closed-end	Total number
Share funds	0	7	7
Bond funds	0	1	1
Mixed investment funds	0	5	5
Hedge funds	11	15	26
Mortgage funds	not provided	2	2
Venture capital funds	not provided	54	54
Real estate funds	not provided	373	373
Direct investment funds	not provided	121	121
Rental funds	not provided	12	12
Credit funds	not provided	73	73
Totally:	11	663	674

Source: National League of Management Companies, 2015a

The presence of specific assets in the portfolio of a mutual investment fund is regulated by the laws of the Russian Federation: a real estate and property rights to a real estate may only be part of joint-stock investment funds' assets and closed-end mutual investment funds' assets.

The investment funds classified as direct investment funds, mortgage funds, high-risk (venture) investments, rental funds, real-estate funds, funds of artistic values and credit funds can only be joint-stock investment funds and closed-end mutual investment funds.

The investment funds classified as hedge funds and commodity market funds can only be joint-stock investment funds, closed-end and interval mutual investment funds.

The shares (investment shares) of the investment funds belonging to the categories of direct investment funds, funds of high-risk (venture) investments, loan funds and hedge funds are only intended for qualified investors.

In accordance with the Federal law as of 29th November 2001, N 156-FZ "On Investment Funds", a management company is not allowed to perform the following actions, namely to:

1) acquire objects not provided by the investment declaration of the investment fund,
2) alienate gratuitously the property constituting the mutual investment fund,
3) enter into loan agreements or credit agreements, as well as repurchase agreements, except for the redemption of investment funds,

4) acquire (alienate) the property from its affiliates,
5) acquire the property from a specialized depositary, the appraiser and audit organizations with whom/which the management company has concluded contracts,
6) dispose of the property constituting the mutual investment fund, without obtaining a prior consent of the specialized depositary, except for transactions made on the organized trades conducted either by a Russian or foreign stock exchange or another trade organizer,
7) use the property constituting the mutual investment fund for ensuring the performance of their own obligations not connected with the trust management of mutual investment funds (the Federal Law "On Investment Funds" as of the day of 29th November 2001, N 156-FZ (ed. 3rd December 2014)).

As the mega-regulator of the financial markets, the Bank of Russia monitors how these rules and restrictions are observed.

5. Activities of mutual investment funds management companies in modern conditions

Russian management companies' primary task is to identify a potential client-investor. The fact is that, for objective reasons, there are no mass retail investors in Russia. According to the Federal State Statistics Service of the Russian Federation, the average per capita income was 20 80 rubles in 2011, 23,221 rubles in 2012, 25,928 in 2013 and 27,887.4 in 2014 (the data obtained for the III quarter). 47-48% of the income generated from the total amount of the population's income accounts for the group with the highest income that numbers only 20% of the entire population. The share of expenditure on the purchase of goods and services is about 74%. In the structure of the monetary income usage, people's savings had a share of 10.4% in 2011, 9.9% in 2012 and 9.8% in 2013 (The Official Statistics, 2014).

According to the Federal State Statistics Service of the Russian Federation, the population invested 1,964.5 mill. rubles in securities in 2013 (which equaled to 10.2% of the savings). In 2014, this increased to 2,521.4 mill. rubles (or 12.2% of the savings) (The Official Statistics, 2014). According to the National Association of Stock Market Participants, the number of investors (who are individuals) actively conducting transactions on the organized securities market in 2012 was 824.1 thousand people. In the first half of 2013, this number was 818.1 thousand people and in the first half of the year 2014, it reached the figure of 900.9 thousand people. This is respectively 1.05% of the active population. There is no official data on the number of the investors-shareholders of mutual investment funds. But the data on the number of personal accounts in the register of investment shareholders can indicate their quantity indirectly. Thus, in 2011 their number was 1,951,877, in 2012 there were 2,034,593 and in 2013, there were 2,033,841 personal accounts (Russian Stock Market, 2013, 2014).

The strategy of a mutual investment fund management company is formed on the analysis of the factors of the external and internal environment. It is based on the collective investment principles: risk averaging; the investment diversification, the division of labor between the elements of the service infrastructure; the government regulation. This strategy is restricted by the rules of the national law on investment funds.

Globalization affects the making of the strategy of investment funds management companies. This is manifested in the extension of the range of the underlying financial instruments used by Russian management companies for the formation of investment funds' assets; the prospects for the use of derivative financial instruments whose underlying assets are foreign issuers' securities, including the securities of transnational corporations; the use of standardized approaches in the construction of new types of mutual investment funds.

Y. Mirkin (2011) indicates that the relationship dynamics of the stock markets of industrialized countries and Russia from 1992 to 2010 show that all financial markets in Russia acted as global. The national features are manifested during the change of the fundamental factors (political and economic) only (Mirkin, 2011). This demonstrates the collective investments market.

After the global financial crisis of 2007-2008, the net asset value of mutual investment funds sharply increased and reached 1.2% of the GDP by the end of 2010. In 2014, there was deterioration in the position of mutual funds (Figure 1).

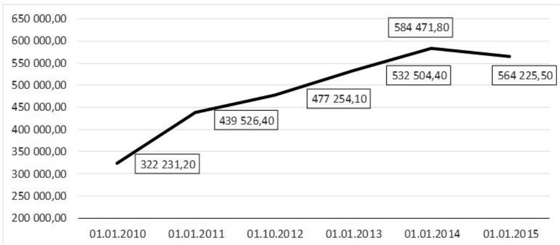

Figure 1 Change in the net asset value of mutual funds in 2010-2014, mill. rubles.
Source: National League of Management Companies, 2015b

Allow us now to consider the results of the activities of management companies and investment funds carried out in the last 5 years. The Russian Central Bank's data show that, according to the number of the accounts, the leading role is played by interval funds. According to the net asset value, the leading role belongs to closed-end mutual investment funds (see table. 4).

Table 4 The activity indicators of mutual investment funds

Year	Number of personal accounts in the owners' register of investment share, in thousands of units. / (Share by types of funds, in %)				Net asset value, bn. rubles / (share by type of funds, in %)			
	Totally	Open-end	Interval	Closed-end	Totally	Open-end	Interval	Closed-end
2011	1,951.88 (100%)	795.04 (40.7%)	1,148.22 (58.8%)	8.62 (0.5%)	1,294.2 (100%)	81.4 (6.3%)	20.9 (1.6%)	1,191.9 (92.1%)
2012	2,034.59 (100%)	871.98 (42.8%)	1,153.64 (56.7%)	8.97 (0.5%)	1,598.0 (100%)	88.8 (5.6%)	18.3 (1.1%)	1,491.0 (93.3%)
2013	2,033.84 (100%)	888.37 (43.8%)	1,135.74 (55.8%)	9.73 (0.4%)	1,865.9 (100%)	113.2 (6.1%)	19.5 (1.6%)	1,733.2 (92.3%)
2014 III quarter	2,277.87 (100%)	1109.35 (48.7%)	1,158.95 (50.9%)	9.57 (0.4%)	2,048.5 (100%)	94.9 (4.6%)	19.8 (1.0%)	1,933.7 (94.4%)

Source: Central Bank, 2015b

Despite the fact that a greater number of accounts were opened in the open-end and interval mutual investment funds, closed-end mutual funds take the leading role on the net asset value. More than 60% of them are real estate funds and rental funds. Their shareholders are primarily legal entities. Open-end and interval mutual funds are intended for retail investors. Their attractiveness lies in the high degree of the liquidity of investment shares and the availability of tax benefits upon investment share redemption. Information on open-end and interval mutual funds is disclosed on management companies' websites and the National League of Management Companies. Closed-end mutual funds and funds intended for qualified investors do not reveal such information. The studies by Abramov A., Akshentseva K. have shown that, during the recession period, the growth of assets was mainly ensured by the revaluation of the portfolio value and asset transactions (Abramov & Akshentseva, 2014, pp. 35-36). The weighted average yield of mutual funds in the Russian Federation is presented in Table 5.

Table 5 The weighted average yield of open-end and interval mutual investment funds in the Russian Federation

Category of fund	Weighted average yield of mutual funds		
	For 5 years (from 31st Dec. 2009 to 31st Dec. 2014)	For 3 years (from 30th Dec. 2011 to 31st Dec. 2014)	For 1 year (from 31st Dec. 2013 to 31st Dec. 2014)
Share funds	20.64%	17.35 %	-1.17 %
Bond funds	41.65 %	18.07 %	11.25 %
Mixed investment funds	22.52 %	20.84 %	10.35 %
Money market funds	46.53 %	24.69 %	7.52 %
Index funds	4.53 %	2.48 %	-6.01 %
Funds of funds	214.29 %	96.84 %	68.70 %

Source: National League of Management Companies, 2015b

As you can see, the funds of funds have shown the highest yields over the last five years. The ten best funds (in terms of their profitability) are presented in Table 6.

Table 6 The ranking of open-end mutual investment funds' yield for 5 years from 31st Dec. .2009 to 31st Dec. 2014

Rank	Mutual investment funds	Management company	Minimum amount of share purchase, rub.	Category of fund	Growth of share value
1	Raiffeisen-USA	Raiffeisen Capital	3 000 000	Fund of funds	264.68%
2	OLMA - USA	OLMA-Finance	10 000	Fund of funds	178.06%
3	Alfa Capital High technology	Alfa Capital	1 000	Fund of funds	151.07%
4	Sberbank-telecommunications and technology	Sberbank Asset Management	15 000	Share fund	115.79%
5	TKB BNP Paribas – Foreign currency bonds' fund	TKB BNP Paribas investment partners	50 000	Bond fund	105.66%
6	BCS - Foreign Funds	BrokerCreditService	50 000	Fund of funds	93.14%
7	Peter Bagration	Parma-Management	100 000	Mixed investment fund	90.00%
8	Alfa Capital Strategic Investments	Alfa Capital	50 000 000	Mixed investment fund	89.99%
9	VTB - Fund Global dividend	VTB Capital Asset Management	1 000 000	Share fund	89.48%
10	Sberbank - America	Sberbank Asset Management	15 000	Fund of funds	89.04%

Source: National League of Management Companies, 2015b

Funds of funds are focused on shares of foreign investment funds that have passed the listing procedure on the major stock exchanges of the world. Assets of share funds, bond funds and mixed investment funds are not only the underlying securities of Russian and foreign issuers, but also of futures and option contracts.

In terms of management companies, companies managing several funds are distinguished. These management companies implement a reasonable pricing policy when assigning a price for the sale or redemption of an investment share and are focused on different categories of investors. A special feature is that these management companies are "bank" management companies (Mirkin, 2011, pp. 147-148). The diversification of investments in such management companies (with the aim of minimizing risks) is primarily revealed in the allocation of resources by types of funds which are under their control (Table 7).

Table 7 The ranking of the management companies according to the number of the mutual investment funds under their control as at 2015.

Rank	Management company	Number of mutual funds under control				Share in the total number of mutual funds	Net asset value (without closed-end mutual funds) in bn. rubles	Share in total volume of net asset value
		Open-end	Interval	Closed-end	Totally			
1	VTB Capital Asset Management	17	2	15	34	2.46%	4,599	4.51 %
2	AK BARS CAPITAL	6		18	24	1.73%	0,055	0.05 %
3	Sberbank Asset Management	19	2	3	24	1.73%	22,244	21.80 %
4	Alfa Capital	14	3	4	21	1.52%	9,442	9.26 %
5	Promsvyaz	4		17	21	1.52%	0,094	0.09 %
6	University of Management	11	2	6	19	1.38%	0,205	0.20 %
7	URALSIB management company	18	1		19	1.38%	9,883	9.69 %
8	Raiffeisen Capital	17	1		18	1.30%	18,896	18.52 %
9	Gazprombank-asset Management	11		6	17	1.23%	3,394	3.33 %
10	Management of Savings	10	1	6	17	1.23%	1,338.96	1.31 %

Source: The Author's calculations based on the data taken from the National League of Management Companies, 2015c

The data in the table show that 2.5% of the considered management companies cover 15.5% of the total number of the mutual investment funds, including 10.1% of the open-end and interval mutual funds. The net asset value of the managed mutual funds (excluding the closed-end mutual funds) is 68.76% of the net asset value of all the open-end and interval mutual funds. This confirms the conclusion made by Y. Mirkin (2011) about a high degree of the monopolization of the collective investment market (Mirkin, 2011).

The further diversification is made according to the categories of the funds. The analysis of the open data of the five management companies (The National League of Management Companies. Mutual investment funds, 2014) with the most significant share of the total net asset value shows that 48.2% of the open-end mutual investment funds constitute share funds; 20.0% constitute the funds of funds; 15.3% are the bond funds; 10.6% belong to the mixed investment funds. The index funds and money market funds make up 3.5% and 2.4%, respectively. Among the interval mutual funds, 33.3% of them belong to the share funds and 22.2% constitute the commodity market funds, mixed investment funds and hedge funds. If the profitability of the funds is compared between the funds, it can be seen that, in 2014, the highest yield was shown by the following management companies:

- the open-end investment funds such as Sberbank Asset Management (99.80% – a fund of funds "Sberbank-America", investing in ETF SPDR S&P500); VTB Capital Asset Management (85.79% - a share fund "VTB-Fund Metallurgy"),
- the interval mutual investment funds – Raiffeisen Capital (106.35% – a commodity market fund "Precious metals", investing in unallocated metal accounts;); VTB Capital Asset Management (100.51% – a commodity market fund "VTB-Precious Metals Fund", investing in gold, silver and platinum).

In the course of the conducting of the analysis of the investment funds managed by the five most important management companies, a fact was established that during the recession period from 2011 to 2014, the strategy of the management companies of the Russian mutual investment funds was formed in line with the increasing share of the underlying securities of foreign issuers and derivative financial instruments, the underlying assets of which are securities of foreign issuers. The share of the financial instruments of foreign issuers in the net assets value (in 2015) remains significant, especially for such management companies as Raiffeisen Capital and Alfa Capital (Figure 2).

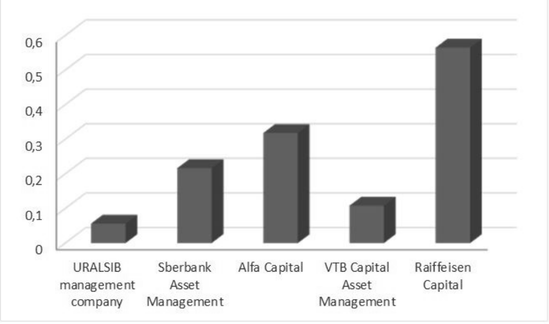

Figure 2 The share of the financial instruments of foreign issuers in the NAV of the open-end investment companies under the control of the management companies NAV5 on 01.30.2015.
Source: The calculations based on management companies' data.

The main areas of investment are: the investment units of foreign ETF, the securities of the issuers coming from BRIC countries, the securities of high-tech companies, and Eurobonds. The analysis of the investment returns and primary documents of management companies revealed that the volume of raising funds into funds for open-end mutual investment funds (i.e. the funds primarily focused on retail investors) showed negative dynamics in 2014 compared to 2013: the cash outflows were equal to minus 16.7 billion rubles on the results generated in the first six months of 2014. That happened primarily due to the outflows from the bond funds. The outflows from the share funds amounted to minus 3.3 billion rubles (Russian stock market, 2014). The data analysis of the National League of Management Companies shows that the greatest decrease in the net assets value over the last four years has been demonstrated by the open-end mutual investment funds of the "share funds" category.

The calculations based on the Bank of Russia's data (Central Bank, 2015b) show that the overall volume of the redemption of investment shares is growing. If the available data for the first three quarters of 2014 are compared with the annual volume of the year 2012, it is possible to see an increase of 26.5%, while in comparison with the three quarters of 2013, it was 120.1%. The largest volume of the redemption of investment shares for the first three quarters of 2014 accounted for the open-end mutual investment funds (55.4 billion rubles) and the closed-end mutual funds (38.7 billion rubles). This sharp decline can firstly be explained by a fall in the market value of the underlying financial instruments (at the end of 2014, the MICEX index decreased by 7.2%, whereas the RTS index decreased by 45.1% (Ministry of Economic Development of the RF., 2015, p. 125)), and secondly, by the withdrawal of the investors' monitory funds from the high-risk market connected with new risks in the financial markets of the Russian Federation. Курсов (throughout 2014, the price of one barrel of crude oil "Urals" decreased by 44.4%; the real weakening of the ruble against the US dollar (including both external and internal inflations) was 34.5%, and against the Euro – 26.6% (Ministry of Economic Development of the RF., 2015, pp. 8-9, 118)).

The change in the volume of the borrowed funds in the funds of funds of the largest management companies is accounted for in Figure 3.

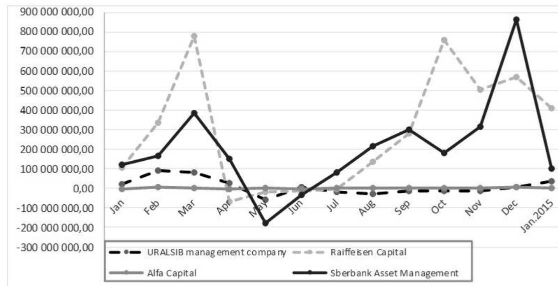

Figure 3 Change in the volume of the borrowed funds in the funds of funds of the largest management companies in 2014 and in January 2015 (thous. rubles).
Source: The calculations based on the management companies' data.

The change in the volume of the inflows into (outflows from) the funds of funds in 2014 is not associated with the change in the euro rate (the correlation coefficient being -0.394713871) and is weakly associated with the changes in the average yield and the net asset value. The correlation coefficients were 0.69 and 0.507009321, respectively. Similarly, there was a weak dependence of these indicators in 2014 when the share funds are concerned, the correlation being 0.464978487 and 0.490651114, respectively. The bond funds seem to be an exception. The relationship between the inflows (outflows) and the change in the average yield is more significant for them (the correlation coefficient being 0.705312593 in 2014), while the relationship between the inflows (outflows) and the change in the net asset value is rather a strong one (0.985633134). This is the violation of the "smart money effect" (Gruber, 1996, p. 807; Zheng, 1999, pp. 902-903; Sapp & Tiwari, 2004, pp. 2005-2006; Abramov & Akshentseva, 2014, pp. 44-45) in relation to Russia: in terms of the non-economic methods of the influence on the Russian economy, this effect begins to act for the bond funds and ceases its operation for the other types of investment funds.

6. Risks in the activities of mutual investment funds management companies

While designing a mutual investment fund strategy, the management company takes into account some risks. They are common risks (for all funds) and specific risks related to the category of a fund.

Common risks traditionally include:

- political and economic risks associated with the ability of having the political situation changed: expropriation; nationalization, a policy aimed at limiting investment in the sectors of economy which stand for the areas of a special interest of the state; an energy prices fall and other circumstances,

- a systemic risk associated with the inability of a large number of financial institutions to fulfill their obligations; amongst such risks, the risks of the banking system, the risk of systemically important financial institutions (in Russia, they include a non-bank credit organization – CJSC “National Settlement Depository”, the central depository, the settlement depository, the repository) and the CJSC joint-stock commercial bank “National Clearing Centre” (the central counter-agent) can be distinguished,
- a market risk associated with fluctuations in exchange rates and interest rates,
- a price risk revealed in the securities price change that could lead to a drop in the value of the fund assets,
- a risk of unauthorized actions in respect of securities by third parties,
- a credit risk particularly associated with a possibility of the non-fulfillment of the undertaken obligations on the part of the issuers of such securities and the counterparties to transactions,
- a market liquidity risk associated with a potential inability to realize assets at favorable prices,
- an operational risk associated with a possibility of the malfunctioning of the equipment and the software used in the processing of transactions, as well as the wrongful acts or inactions of the organization’s staff involved in making calculations, the implementation of depository activities and other circumstances,
- a risk associated with changes in applicable laws,
- a risk of force-majeure circumstances, such as natural disasters and military actions (Galanov, 2007, 2008).

However, globalization brings new risks, which can be seen on the example of the modern securities market of the Russian Federation. Firstly, the reasons for new risks are non-economic. They are sectoral sanctions against Russian banks and companies from the US, EU and other countries due to increased tensions in Ukraine as well as sanctions against some Russian citizens. Secondly, in view of financial markets linkages, sanctions against some segments cause risks in other segments, particularly in the mutual investment market. “The indirect effect of the sanctions is connected with the fact that, in order to avoid their wider interpretation by the US and the EU governments and having some fear of a possible spread of restrictions on a wider range of Russian companies, foreign contractors prefer to minimize their risks. In particular, they:

- limit the refinancing of the external debt – not only for the companies that have come under the sanctions, but in some cases for other Russian borrowers as well,
- reduce the limits on Russian banks even for transactions that are not subjected to the restrictions (swaps and short-term loans),
- increase the cycle of payments in a foreign currency (as the result of the delays in payments due to the verification procedures, such delays lasting from several hours to several days).

In addition, foreign rating agencies have stopped assigning ratings to the new instruments of the companies that have come under the sanctions. This restricts issuers from the placement of bonds among institutional investors obliged to make investments in bonds with a rating not below a certain level (Financial Stability Review, 2014, p.18).

Thus, new specific risks in the context of globalization and in terms of external influences on the national economy in order to change national political decisions are as follows:

- the risk of restrictions of the refinancing of the external debt, which can lead to the default by the issuers whose debt securities are the assets of such bond funds,
- risks of limiting cross-border transactions; it is especially important for mutual investment funds in whose assets there are underlying securities and derivative financial instruments of foreign issuers,
- the risk of the disconnection of payment systems; if this happens, it will make trade and exchange operations impossible,
- the risk of reductions in the credit ratings of the issuers whose securities are the assets of investment funds,
- the risks of accelerating capital export from Russia.

Under these conditions, risks such as the market liquidity risk, the market risk associated with fluctuations in exchange rates and interest rates; the price risk, revealing in the price changes on securities which could lead to a drop in the value of the fund's assets appear to be particularly acute.

According to VTB Capital Investment Management, the geopolitical discount on shares in Russian assets was 0.92 in mid-September 2014 (A Look at the Capital Markets, 2014). The change in the coefficient α funds of funds shows A decrease in the effectiveness of the mutual investment funds and their management companies in 2014 (Figure 4). A sharp decline in the efficiency and an increase in risks occur on the background of the strengthening of the sanctions against Russia starting in March 2014. It can be assumed that some easing of the sanctions in late 2014 early 2015 will contribute to the growth of α.

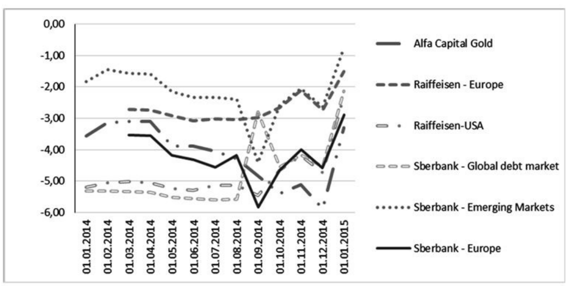

Figure 4 Change in the *α* coefficient of the funds of funds managed by Alfa Capital, Sberbank Asset Management, Raiffeisen Capital.
Source: Investfund Cbonds Groop, 2015

Conclusion

On the one hand, the benefits of globalization turn out to be problems connected with the weakness of the national economy; on the other hand, one should speak about the specific forms of deglobalization. The political and economic sanctions and restrictions currently applied to financial institutions and industrial companies artificially force the acceleration of the domestic economic processes in Russia. Amongst these processes, the modernization of the strategically important national industries, the provision of food and industrial safety and the search of new economic partners in the countries not participating in the sanctions against Russia are possible to distinguish. (Dudin & Lyasnikov, 2014, p. 115). When the investment funds are concerned, it implies the adjustment of the investment strategy and tactics. Firstly, it is the orientation towards qualified and institutional investors as well as retail investors from a number of the top and middle management of Russian companies. Secondly, it is the merging of the funds aimed at the reduction of management costs. Thirdly, refocusing on national securities and securities of issuers of emerging markets is inevitable. Fourthly, legislative changes concerning the rules of the formation of an investment fund's assets, an expansion of assets and tax incentives stimulating long-term investment are needed. SM

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