Available online at www.worldscientificnews.com

World Scientific News

WSN 57 (2016) 160-169 EISSN 2392-2192

Investment fund market in Poland

Waldemar Aspadarec

Faculty of Economics and Management, University of Szczecin
Al. Papieża Jana Pawła II 22a, 70-453 Szczecin, Poland

E-mail address: goniag@poczta.fm

ABSTRACT

The article presents an analysis of the investment fund market in Poland between 2010 and 2015. At the beginning it presents a sector of investment fund associations and its financial results. The next part embraces an analysis of net assets held by the investment funds, and an investigation into the market structure according to fund groups. The last part constitutes an analysis of the Polish investment fund market compared to the European market. The conclusions from the undertaken deliberations suggest that there was an increased interest in the investment funds within the period in question, as a form of locating capital by both individual and institutional investors. The potential of products offered to the investors varied, and its proper utilization caused further income of funds into the sector.

Keywords: Investment funds; investment fund association; Polish capital market; financial market

1. INTRODUCTION

A form of mutual fund appeared in the world in the second half of 18th century (Rouwenhorst, 2004). In its contemporary form, the most dynamic development of the world investment fund market took place at the break of 1980s and 1990s. It stemmed from intensification of financial markets globalization and liberalization processes (Levine, 1997). Another factor determining the development of the fund market resulted from a strong connection between the technological advancement and development of financial engineerings, which allowed practical implementation of scientific advantages in the sector of modern portfolio theory, valuation of derivatives and market effectiveness (Barros et al., 2010). A factor, which also exerted certain influence on dynamic development of the fund market around the world was an increase in households' savings, which were invested on the investment fund market (Klapper et al., 2004).

Previous forms of investing in treasury securities and bank deposits provided the investors with less attractive rates of return than those achieved by investment funds. A consequence was further income of capital into the investment fund market, causing its dynamic development (Perez, 2011). Classic investment funds are mutual fund institutions, which base construction of their portfolio on capital and financial market instruments, following the principle of investment risk diversification. A primary objective of their operation is to achieve such rates of return that would exceed the market average, i.e. benchmark (Haslem, 2010).

Investment funds are mutual fund institutions, whose task is to invest in order to multiply the resources that they have been entrusted with (Jajuga, Jajuga, 2007). K. Perez defines investment funds as mutual fund institutions, whose operations consist in accumulating the dispersed capitals of individual and institutional clients, with a purpose to allocate them further, mainly on the financial market, what is to bring the expected financial advantages to the owners of those resources, reflecting the level of their aversion towards risk (Perez, 2012). Investment funds are a form of investing characterized with a high level of investment safety (Krupa, 2013). Investment fund associations managing the funds are public trust institutions, which is why their operations are subject to numerous statutory limitations, in order to reduce the excessive risk to be undertaken by the managers (Żytniewski, 2000). The security system for investors within a fund market comprises of all entities, mechanisms, actions and regulations intended to protect the investors from loosing the invested capital (Stańczak-Struiło, Martyniuk, 2014). The investment funds are subject to acts on investment funds, which stipulate the limitations related to their investment policy, deposits diversification principles, information duties and regulation governing their supervision. Its purpose is to ensure their clarity and security of funds that they were entrusted with by the investors, what influences their operation, including effectiveness of management (Beck, 2009).

Purpose of the article is to show the investment funds development process in Poland. Information provided in the article are based on an analysis and evaluation of quantity characteristics, mainly referring to the number of investment fund associations and funds that they manage, financial results of the investment funds, investment fund market structure in Poland and size of the Polish fund market when compared to the European area. The time scope of the research is 2010-2015, providing a possibility to demonstrate transformations after the outbreak of the financial crisis. Source materials employed in the article come from the European Fund and Asset Management Association (EFAMA), Polish Financial Supervision Authority (KNF), Chamber of Fund and Asset Management (IZFiA), Eurostat and the Investment Funds Society (TFI) registered in Poland.

2. 1. The investment societies sector and its financial results

The financial market started to function in Poland after the first Polish legal act related to the capital market was adopted - the Act of 22 March 1991 - on public trading in securities and trust funds. In 1992, pursuant to the Act, the First Polish Trust Fund - Pioneer - was inaugurated by Pioneer Pierwsze Polskie Towarzystwo Funduszy Powierniczych SA, operating today under the name of Pioneer Pekao TFI. Data included in Table 1 suggest that there were 50 societies functioning in Poland in 2010, which managed 417 funds. At the end of 2015, the number of operating societies was 60, and the number of managed investment funds increased to 815.

Table 1. The number of investment fund societies and investment funds at the end of 2010 and 2015 in Poland.

	2010	2015
Investment fund societies	50	60
Investment funds	417	815

Source: own work on the basis of data by KNF.

Data included in Table 2 suggest that the total financial result of the investment funds sector, achieved in 2012, was 441.377 thousand PLN. At the end of 2010, 36 out of 50 societies reach profit at the level of 455.715 thousand PLN. Total loss of the remaining 14 entities was 14.338 thousand PLN. Analogically, total net financial results, achieved in 2015 by the investment fund societies reached 540.345 thousand PLN. 48 out of 60 societies operating on the market, developed a positive financial result to the amount of 564.821 thousand PLN, while the financial losses that were suffered by the remaining societies amounted to 24.476 PLN. PLN.

Table 2. Aggregated profit and loss of investment funds in 2010 and 2015 in thousands PLN.

	2010		2015	
	total	number of Investment Fund Societies	total	number of Investment Fund Societies
Aggregated profit	455,715	36	564,821	48.
Aggregated loss	14,338	14.	24,476.	12
Financial result	**441,377**		**540,345**	

Source: own work on the basis of data by KNF.

Improvement of the financial result achieved by the investment funds sector within the investigated period resulted mainly from an increase in their profits from investment funds management, with simultaneously lower increase of the costs they bear.

2. 2. Net assets of investment funds and market structure according to funds groups

At the end of 2015, value of the assets managed by the Polish investment funds was 252.1 bln PLN. When compared to 2014, the assets increased by 43 bln PLN, thus the growth dynamics reached 20.5%. In turn, while analyzing a six-year time horizon, the value of assets in the investigated period increased from 93.4 bln PLN at the end of 2010, i.e. It grew by 158.7 bln PLN, giving a change of 169.9%. It is worth emphasizing that the assets had been growing continuously since the beginning of the Polish fund market in 1992, until 2007, when they reached 134.5 bln PLN. The financial crisis caused a sudden drop of net assets value, managed by national funds societies, and as a result of a bear market, their value in 2008 decreased to 76 bln PLN.

High dynamics and a strong growth of the assets between 2010 and 2015 caused significant transformations in their structure, what was highly influenced by the prosperity within the Polish financial market. Non-public assets funds became the largest segment in terms of managed resources, accumulating more than 98 bln PLN at the end of 2015. It means that within the period in question, the funds increased the assets by more than 90 bln PLN, and their share in the structure reached 38.9%, Table 3.

Table 3. Net assets of segments and that market share in 2015 and in 2010 in mln PLN.

	assets in mln		modification		market share in %	
	2015	2010	mln PLN	%	2015	2010
non-public assets	98,041	7,478.	90,563	1211.0	38.9	8.0
debt	40,726	12,670	28,056	221.4	16.2	13.6
mixed	32,373	28,405	3,968	13.9	12.8	30.4
monetary and cash	29,971	8,731	21,240	243.2	11.9	9.3
shares	29,628	27,170	2,458	9.0	11.7	29.1
total return rate	12,127	2,051	10,076	491.2	4.8	2.2
securitisation	5,110	924	4,186	453.0	2.0	1.0
capital conservation	1,877	3,248	-1,371	-42.2	0.7	3.5
real estates	1,867	2,594	-728	-28.0	0.7	2.8
raw materials market	449	138	311	325.3	0.2	0.1
total	**252,169**	**93,407**	**158,762**	**169.9**	**100.0**	**100.0**

Source: own work on the basis of data by Investment Fund Societies.

Lack of a strong rebound on the share market in Warsaw after the financial crisis caused that the investors sought for funds with a low risk profile, willingly allocating their resources in debt as well as monetary and cash funds. Assets of the debt funds grew by more than 28 bln PLN, i.e. more than 220%, and their share in the structure remained at the level of 16.2%. Intensive inflow of resources from that market segment was caused by a bull on the debt market. Returns of Polish securities with stable percentage rate and long-term redemption horizon dropped to the lowest levels in the history. The case was similar with foreign bond funds.

The fourth place in terms of market share was occupied by monetary and cash funds, whose assets grew by more than 21 bln PLN within 6 years, to the amount of 30 bln PLN, causing their market share to increase to the level of 11.9%.

An increase in assets between 2010-2015 was also recorded by two segments, however their market share dropped significantly. It was caused by a major increase in the whole market value, especially resulting from large inflow of non-public assets, debt funds as well as monetary and cash funds. Mixed funds ended 2015 at the level of 32 bln PLN, what means an increase by 13.9% in comparison to 2010. However, share of this market segment dropped from 30.4% to 12.8% of the whole market. An analogical situation took place in the segment of share funds; the level of funds that they managed grew by 9.0%, what as a result gave the amount of 29.6 bln PLN, but still the share of this segment dropped from 29.1% in 2012 to 11.7% in 2015.

Within the investigated period, great popularity was gained by total rate of return funds, whose share in the structure increased from 2.2% to 4.8%. Inflow of the capital to this market segment and a large increase in the number of established funds resulted from an assumption based on earning in all market conditions. Their managers are free to choose between the types of instruments issued by various issuers, and are not attached to any benchmark. Traditional investment in shares and bonds has been playing a fundamental role in the development of a portfolio from numerous years, however in last years, in relation to a growth in variability, the role of alternative investments is on the increase. Their characteristics assume that they provide diversified sources of rate of return, they can reduce variability of the portfolio, and they usually do not need to depend on strong trends on capital markets (Aspadarec, 2013). The segment of the total rate of return is highly diversified, and the funds differ significantly in terms of the risk level and achieved rate of return. Despite a considerably high level of variability within the goods market, the commodity pools failed to gain investors' interest, thus it still is the smallest segment of the market, with share at the level of 0.2%.

Among the 10 determined market segments, a drop in the value of assets was recorded by two. It was mostly related to capital conservation funds, whose assets being managed in the mentioned period dropped by about 1.4 mln PLN, but it was a drop by more than 42%. In this case, the reason was that several funds were cleared. A significant part of funds in the segment embraces structured products launched in a form of closed investment funds for a specified period, and the result depends on implementation of a given scenario. Another segment, which recorded a deep drop in terms of assets value being managed within the six-year time horizon, was the real property funds, whose assets dropped by more than 0.7 bln PLN, and their market share decreased by 2.1 percentage point, to 0.7% at the end of 2015.

2. 3. Polish funds market compared to the European market

According to the data presented in Table 4 the value of assets accumulated in Polish investment funds increased in 2015 from the level of 48.9 bln EUR at the end of 2014 to 61.5

bln EUR. It means an increase by 12.6 bln EUR, or by 25.8% in percentage terms. It may be concluded that the Polish market was a leader in Europe, because the dynamics was much greater than in the previous year, when it reached 8.6%/ year by year. At the same time, it was almost two times higher than the average pace of increase within the funds market, observed in the whole Europe. The size of assets being managed in Europe increased by 11.3% in the same period. On as many as 26 market, the growth dynamics was lower than in Poland. Only the Czech Republic managed to stay ahead our market in this competition. Going back to the Polish market, it must be stressed that is relative position towards other European states did not change. Our advantage over the countries, where the assets are lower, is significant all the time. It will be hard to reach the Finnish and Dutch market, which are larger by 50%, Table 4.

Table 4. Assets of the European funds market in bln EUR.

	2015		2010		
	value	share in %	value	share in %	change in %
Luxembourg	3,506.2	27.9	2,199	27.4	59.4
Ireland	1,898.8	15.1	963	12.0	97.1
Germany	1,729.2	13.7	1,126	14.0	53.5
France	1,682.8	13.4	1,402	17.5	20.0
Great Britain	1,479.6	11.8	794	9.9	86.3
Switzerland	501.5	4.0	253	3.2	98.2
Sweden	285.5	2.3	166	2.1	71.9
Italy	281.5	2.2	232	2.9	21.3
Denmark	258.3	2.1	135	1.7	91.3
Spain	254.3	2.0	170	2.1	49.6
Austria	168.2	1.3	148	1.8	13.6
Belgium	127.9	1.0	94	1.1	36.0
Norway	94.1	0.7	63	0.8	49.3
Finland	97.4	0.8	62	0.8	57.1
The Netherlands	no data	no data	78	1.0	
Poland	**61.5**	**0.5**	**29**	**0.4**	**112.1**
Lichtenstein	42.3	0.3	31	0.4	36.4

Turkey	28.0	0.2	18	0.2	55.5
Portugal	22.5	0.2	26	0.3	-13.4
Hungary	18.1	0.1	14	0.2	29.3
Malta	10.1	0.1	no data	no data	
Greece	7.0	0.1	9	0.1	-22.2
Czech Republic	7.8	0.1	5	0.1	56.0
Romania	6.3	0.1	3	0.0	110.0
Slovakia	5.6	0.0	4	0.0	40.0
Slovenia	2.3	0.0	2	0.0	15.0
Croatia	2.2	0.0	no data	no data	
Bulgaria	0.4	0.0	0.2	0.0	100.0
In total	**12,580.6**	**100.0**	**8,024.4**	**100**	**56.7**
UCITS	**8,168.1**	**64.9**	**5,990**	**74.6**	**36.4**
Non-UCITS	**4,412.4**	**35.1**	**2,035**	**25.4**	**116.8**

Source: own work on the basis of data by EFAMA

A leader in terms of the size of assets within the European market is Luxembourg, which is still strengthening its position, with the largest market share that is 27.9%. The first five countries, where more than 1 bln PLN of assets is allocated, has a significant advantage over the remaining states, and nothing suggests that such a state of affairs would change in the upcoming years. However, it is worth stressing that numerous countries reached dynamics with a two-digit value. It should also be noted that in 2015 the market shrank in three states - Greece (-5.4%), Portugal (-1.9%) and Bulgaria (-1.0). In case of Poland, the size of assets being managed per a resident has been on a systematic increase. While at the end of 2010 it was only 750 euro, at the end of 2015 this amount already reached 1307 euro. However, this value is still to low to overtake the developed countries, whose population is ofter similar to that of Poland, but they have much greater assets at their disposal, Table 5.

Table 5. Value of net assets per resident in 2015 and 2010 in thousands EUR.

	2015	2010	modification
Luxembourg	5,639.2	4,379.9	28.7
Lichtenstein	1,038.1	865.8	19.9

Ireland	361.3	215.6	67.5
Switzerland	51.8	33.3	55.5
Denmark	41.4	24.5	68.9
Sweden	26.7	17.8	50.0
France	24.2	21.7	11.5
Malta	23.0	no data	no data
Great Britain	20.7	12.8	61.7
Germany	19.7	13.8	42.7
Austria	19.2	17.6	9.0
Norway	18.1	13.0	39.2
Finland	15.7	11.5	36.5
Belgium	10.3	8.7	18.4
Spain	5.0	3.7	35.1
The Netherlands	no data	4.71	no data
Italy	4.1	3.9	5.1
Portugal	2.2	2.4	-8.3
Hungary	1.8	1.3	38.4
Poland	**1.3**	**0.8**	**62.5**
Slovenia	1.1	1.1	0.0
Slovakia	1.0	0.7	42.8
Greece	0.7	0.8	-12.5
Czech Republic	0.6	0.5	20.0
Turkey	0.4	0.2	100.0
Romania	0.3	0.1	200.0
Bulgaria	0.1	0.1	0.0

Source: own work on the basis of data by EFAMA, Eurostat

3. CONCLUSIONS

The studies carried out in the article allow to claim that the most important determinants of the funds market development in Poland are solid legal foundations, which allow the Polish societies to remain competitive. What is more, development of Polish economy causes an increased interest in investment funds as a form of allocating capital, both by the individual and institutional investors, and this is contribute to development of the mutual fund market. Between 2010 and 2015 the potential of products offered to the investors varied, and its proper utilization caused further income of funds into the sector. As a result, the role of investment funds in the economy improved and the market itself had become an integral part of both the local and international financial market, as it is in highly developed states.

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(Received 06 September 2016; accepted 19 September 2016)