Development of Mutual Investment Funds in the Russian Federation

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Abstract. The point of collective investment is to organise investments under professional management to collect funds from separate investors and later invest them with high yield. So, investments of several investors are managed as a unified portfolio, with every investor having his own share that is proportionate to his or her investment. First investment funds as an object of collective investment is relatively new promising form of investing funds by a Russian investors, including those with no experience in the field, as of these funds are an instrument that is easy to access. Mechanism for transforming savings of the population into investments is one of the important factors for economy growth, increasing economic potential of the country, accelerating the scientific and technical progress, and insuring balanced development of all industries. Thanks to mutual investment funds, the population has now an opportunity to participate in the investment process and to receive profits from their savings.

1. Introduction
The development of the national economy is impossible without the necessary amount of investment financial funds. The financial market is a mechanism attracting financial investments into the national economy [8].

Mutual investment funds are one of the popular institutes for a collective investment [15, 16]. Thanks to them, considerable monetary funds are attracted including through small investors [1]. Mutual investment funds are a financial instrument that is easy to access for the majority of Russians without any experience in investment but willing to improve their welfare, and for companies that is an opportunity to attract additional resources for development on acceptable conditions, which are also more favourable than in banks [9]. The economic strategy of the Russian Federation ensures its innovative development on the basis of boosting investment process and collective investment, including mutual investment funds that are a promising way to attract financial resources to the financial market [11]. The necessity of the development of this financial institute is stipulated in Russia’s Innovative Development Strategy to 2020.

2. Pertinence
Mechanism for transforming savings of the population into investments is one of the important factors for economy growth, increasing economic potential of the country, accelerating the scientific and technical progress, and insuring balanced development of all industries [2].
Analysis of financial flows that are generated due to mutual investment funds [3] in the Russian Federation is relevant for immediate stakeholders in the financial relations and public agencies that provide financial management and control [12].

Scientific publications by Russian and foreign experts on issues of collective investment form the theoretical and methodological basis of the research: G. Markovets, F. Modigliani, M. Miller, W. Sharpe, V. Galanov, Y. Mirkin, J. Bogle, P. Tufano, R. Norton, W. Goetzmann and other researchers made an important contribution to the development of collective investment theory and practice.

3. The goal setting
Despite a considerable list of authors who explored those questions, we should say that there is lack of publications on comprehensive collective investment system research as a whole and its elements including mutual investment funds, their types and operation [10]. It is necessary to conduct a practice-oriented research that would show us the quantity fluctuations for mutual investment funds. Before it 2008, the global crisis, the number of mutual investment funds and the amount of collective investment constantly grew. However, from 2009 the situation has changed and that number of mutual investment funds and the amount of collective investments is reducing annually [5]. This shows the cyclical development of this element in the collective investments system, and, in our opinion, requires detailed analysis.

4. Practical results
Let us analyse the fluctuations in the number of mutual investment funds (Figure 1) [6,17] from 2014 to 2018. In 2014 the number of mutual investment funds increased and by the end of the year it amounted to 1534. The growing number of mutual investment funds was caused by the higher share of closed funds (by 10.1%), while the number of open and internal funds decreased by 12.0% and 1.8% respectively.

In 2015 the aggregated number of registered mutual investment funds reduced by 24 (1.5%) and by the end of the year it amounted to 1560. Sharp drop in the number of registered mutual investment funds can most clearly be seen among open mutual investment funds: the number fell by 29 items, which is 7.2% of the number of open mutual investment funds registered by the end of 2014. The number of internal mutual investment funds reduced by 5 units, which, however, accounts for 9.1%. The number of closed mutual investment funds grew by 10, which is 0.9% of the funds registered in 2014.

![Figure 1. The number of registered mutual investment funds by type in 2014-2018.](image-url)
By the end of 2016, despite a slight increase in the number of closed mutual investment funds by 12, the aggregate number of mutual investment funds reduced by 7 items down to 1553, first of all due to a smaller number of open mutual investment funds (by 16 units) and reduction of the internal mutual investment funds (by 3 units).

In 2017 the number of mutual investment funds continued to decrees. It fell to 56 items, with the general number being 1497. The maximum drop was registered in Q1 (by 41 items). The total number of open mutual investment fund in a year decreased by 29 items, with closed mutual investment funds and interval mutual investment funds going down by 19 and 8 respectively.

In Q3 2018 the number of registered mutual investment funds reduced by 7 and down to 1457. This reduction was caused by the falling number of open mutual investment funds by 9 units and internal medium investment funds by 1 unit. As for the number of closed mutual investment funds, their number grew by 2 units. The shares of the first Russian stock exchange mutual investment fund was listed at the stock exchange and models oneself on the composition and proportions of the Moscow stock exchange total return index.

The data demonstrates that closed funds form the majority by their number in all periods with 76.25% in Q2 2018. Open mutual investment funds account for 20.80% of the total number of mutual investment funds with investment funds taking 2.95%.

The operation of mutual investment funds implies that there should be management companies that forms the main elements of MIFs [13]. The fund development fluctuations from the moment when MFI market was created up to now clearly demonstrates the process of formation, collective investments market development in Russia almost from scratch: if in the early 1997 they were only 7 management companies, by early 2018 the were 316 of them.

Let us analyse the fluctuations in the number of management companies (Figure 2) [6,17] from 2014 to 2018.

In 2015 the number of management companies that provide trust managers for mutual funds reduced by 25 and amounted to 372 cases collective investments.

In 2016 the number of management companies continued to decrease, and in a year introduced up to 301 item.

In 2017 the number of management companies reduced by 23 items down to 278. Today the Bank of Russia strengthens of the control over management companies in the mutual investment funds. It focuses on information disclosure, reports accuracy. The number of management companies decreases also through licences being revoked from companies that do not provide reports or disclose information in full. The Bank of Russia seeks to improve the information disclosure mechanism as one of the activities of mutual investment funds so that investors could have full information structure, investment but for years, investment strategist, financial indicators for the performance of management companies.

Four example, in July 2017 the ruling of the bank of Russia of 24.03.2017 No. 4323-Y, that introduced innovations into accounting reports of stock countries and mentioned companies in mutual investment funds.

In Q3 2018 the production of the number of management companies continued with 7 items down to 254 accompanies. Despite the decreasing number of funds and management companies, the cost of their net assets grew due to investment unit payment, bigger value of the property and relevant payments.

The payment of investment units under mutual investment funds is supported actively by banks with a view to receive commission revenue, and also management companies developing remote sales channels, smart phone apps and on-line profiles that provide the clients an opportunity to receive the necessary services as soon as possible [7].
5. Conclusion
Investments into mutual investment funds are quite risky, those risks can be compensated by potentially high profit [14]. However, funds cannot guarantee constant high yield, as of the cost of the share can both grow and reduced with time. The rate of return on mutual funds is exposed to sudden fluctuations. The development of this instrument in future can increase the share of collective investment in the national economy.

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