Comparative Study of Mutual Investment Funds and Other Collective Investment Tools

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Abstract. Collective investment is a type of investment whereby the monetary resources of individual investors are pooled together and managed by a professional fund manager for the purpose of their subsequent profitable allocation. As a collective investment tool, mutual investment funds are a relatively new and attractive money investment scheme for Russian investors, including those who lack investing experience, because mutual funds are an affordable financial instrument. The article defines the main collective investment institutions. It is observed that mutual investment funds have a number of benefits, as well as drawbacks, as compared to other collective investment institutions. The article provides a definition of the investment institutions, a comparison of their main features, as well as a characteristic of investment tools of mutual investment funds, joint stock investment funds and private pension funds.

1. Introduction

In the environment of a volatile economy and geopolitical risks, investors are trying to find conservative tools and use those strategies that are less aggressive. By studying the dynamics of the mutual investment fund market in the Russian Federation, it is observed that the investment fund market is growing rapidly, attracting more and more investors. A mutual investment fund (MIF) is a self-contained property complex composed of assets placed by the trustor (trustors) under fiduciary management of the management company [1].

In April 2018, it was five years since the first Russian exchange-traded fund (ETF) was listed on the Moscow Exchange. In Russia, FinEx represents the market for exchange-traded funds (ETF). At year-end 2017, the volume of the ETF industry assets in the world reached 4.7 trillion US dollars (+37.2% p. a.) [2].

As a collective investment project, a mutual investment fund is a relatively new and attractive money investment scheme for Russian investors, including those who lack investing experience, because mutual funds are an “affordable” financial instrument [3].

2. Relevance

Many Russian scientists and academics have studied and elaborated on various scientific, theoretical and practical aspects of developing mutual investment funds as a financial instrument for investing in the economic capacity building.

The authors who made a significant contribution to the investment management theory, which also influenced the process of establishing mutual investment funds, include such scientists as G. Alexander, J. Bailey, H. Markowitz, W. Sharpe, J. Lintner, J. Tobin, T. Treynor, and C. Dickinson.

At the same time, both in theory and practice, there is a lack of theoretical insights and methodological recommendations regarding the techniques for comparing the forms of organization of collective investment schemes, and determining the aspects of investor participation in mutual investment funds.

3. Problem statement

Mutual investment funds are one of the most common investment tools in the world, and one of the most attractive types of investments, both for private individuals and legal entities. Equity funds, bond funds and blend funds are prevailing.

Among private investors, the most popular are equity funds; it is these funds that occupy the largest market share of open-end and interval mutual funds. Equity funds consist of rather wildcat securities, most commonly, corporates securities, which should make up for at least 50% of the fund assets. Apart from equities, a portfolio may contain bonds, though their number should not exceed 40%. Distinctive features of a mutual investment fund are both efficient earnings potential and exposure to maximum loss [4].

Bond funds are the opposite of equity funds. They are traditionally regarded as a “safe haven” in case of a market slump. A management company allocates investor funds primarily in bonds. These funds are considered conservative, as they are characterized by guaranteed low rate of return, as the bond prices are more stable and less volatile compared to stock prices.

4. Practical effect

Currently, there are three collective investment tools: mutual investment funds (MIFs), joint stock investment funds (JSIFs) and private pension funds (PPFs).

MIFs, JSIFs and PPFs give investors the opportunity to invest their capital in those investment tools, which are rather difficult to acquire on individual basis [5]. At the same time, the investment tools of each collective investment institution are different, therefore, it is necessary to give an in-depth consideration to the tools of collective institutions to define their similarities and differences, and further to determine the optimal collective investment institution for a private investor.

PPFs are organizations established to collect pension contributions, invest the collected funds and pay supplementary pensions to participants at the expense of these funds. PPFs can be established as joint stock companies. The fund may issue only ordinary shares. The fund may not carry out transactions involving bills of exchange, or issue loans. Further, first dividends on shares will be paid five years from the PPF registration as a joint-stock company [6].

A JSIF is an open joint stock corporation, with its fixed assets being transferred to the management company for investment, and a relatively small part of these assets being used for expenses associated with operation. The main investment tool of the JSIFs are stocks.

Let us review a definition of the investment institutions and a comparison of their main features [7], as well as a characteristic of the investment tools of MIFs, JSIFs and PPFs.

Guided by these tables, the following conclusions could be drawn.

PPF is an alternative to the government pension fund. These organizations enable investors to acquire the investment part of the pension long before they reach retirement age.

PPFs specialize in long-term investment. A PPF can invest only in a limited number of assets with minimum risk: deposits, bonds and certain stocks. Therefore, the rate of returns of a PPF against other collective investment schemes is low. The main goal of PPF investors is to ensure a deserved retirement. Consequently, the PPF investment strategy is designed in such a way that the invested assets produce a profit several years on.

Table 1. Comparison of Collective Investment Institutions in Russia.

Criterion	MIF	JSIF	PPF
Form of organization	Unincorporated property complex	OJSC	JSC
Purpose of establishment	Profit earning	Profit earning	Undertaking for efficient investment of pension savings
Document issued upon enlistment	Investment unit	Ordinary nominal share	Pension agreement
Is it an item of securities	Yes	Yes	No
Items transferred in trust	Monetary resources and other property	Monetary resources and other designated property	Monetary resources
Transfer of participation rights (except for succession)	Close out/redemption	Share sale	No
Main statutory instrument governing the activities	156-ФЗ “On Investment Funds”	156-ФЗ “On Investment Funds”	72-ФЗ “On Private Pension Funds”
Special aspects	Moderate risk, diverse investment schemes and types	Opportunity to issue securities, moderate risk	Long-term investments, low risk, close government regulation

As a legal entity, a JSIF is a joint stock corporation (JSC), while an MIF is a self-contained unincorporated property complex. This means that the financial possibilities of an investor in a joint stock fund are equivalent to the number of his shares. In MIFs, the financial possibilities of an investor are limited only by the type of a mutual investment fund.

The MIF resources can be invested in various investment projects depending on the MIF category. Overall, the law provides for 16 different MIF categories distinguished by investment projects. Mutual investment funds allow for investing in both highly liquid assets and low-liquid high risk assets.

Based on the comparative analysis, we can draw conclusions and define the optimal collective investment institution for a private investor.

Considering that the regulatory legal acts do not regulate the attributes of a risk, which an investor may face when buying shares of a fund, the joint stock fund will be considered as a part of the joint stock corporation, where “the shareholders are not liable for obligations of the corporation and bear the risk of loss associated with its activities within the value of their shares”. This is the main difference between MIFs and JSIFs: the risk of MIFs is in losses due to changes of the property market value, and the JSIFs risk is in the fund activities, and it is limited by the value of shares [8, 9].

Another significant difference between mutual investment funds and joint stock investment funds is double taxation, which lowers the appeal of JSIFs to investors. Initially, JSIFs pay a 20% rate tax on profit made in the course of their activities, and then, when net profit is distributed as dividends, shareholders pay a dividends tax.

Table 2. Comparative Analysis of Investment Tools of PPF, JSIF and MIF.

	Characteristics
Investment unit	- Uncertificated security. - Recording of rights to investment units is done on customer accounts in the investment unit register. - An investment unit does not have a face amount. - When an investor becomes a shareholder in a fund, he does not take in any integer number of investment units, but simply invests any amount, not lower than the minimum amount specified by the management company for each fund. - The number of investment units granted by the fund management company depends on the type of the fund.
Ordinary nominal share	- Having bought a JSIF share, an investor becomes a shareholder of the fund, and gains the right to allot the profit, collect dividends and participate in the JSC management. - JSIF shares can be bought on the stock exchange. - Partial payment of shares during their allotment is not allowed. - JSIF shareholders can collect dividends on shares. - A winding-up of the JSIF can happen only by the decision of the general shareholders meeting.
Non-government pension provision agreement	- It is an agreement between the fund and investor, according to which the investor makes pension contributions to the fund and the fund pays a non-government pension. - It ensures payments upon the investor's reaching of retirement age, regardless of the investor's pension insurance record. - It allows for an early withdrawal of pension savings. - The investors can be both private individuals and legal entities. - The agreement can be terminated unilaterally should the investor so wish. - The agreement duration is equal to the period of the parties fulfilling their obligations.

5. Conclusion

Mutual investment funds gained the most widespread use as a collective investment institution for private investors. Mutual investment funds have a number of advantages over other collective investment institutions.

Mutual investment funds give the population an opportunity to participate in the investment process and receive an income from their savings. Mutual investment funds also provide an opportunity for investors to generate a significantly higher income (compared with the rate of returns on investments from bank deposits). Therefore, mutual investment funds are an appealing collective investment scheme, and they advantage the economic development in general.

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