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Investment Funds in Romania

Creation of and role for the financial industry, connection to major political changes and development in past, present and future

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To Simon.

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1. Introduction

The end of communism “*spelt the end of a political system that has exercised a powerful influence over the political history of twentieth century Europe. In so doing, it also uncovered prospects of democratization in parts of the world long deprived by them.*” (Potter, Goldblatt, Kiloh, Lewis, 1997)

So, did the bloody revolution of 1989 in Romania bring with itself new values, Western values? Is Romania going West since 1990? A very interesting way in fact to look at Romania’s evolution for the past two decades is to analyze its orientation after and implementation of Western values. Democracy, free market economy, human rights, freedom of speech and of the press are the building stones of Western values, which the victims of the revolution have died for. This was the end of communism, the end of the Soviet Union and the “*end of history*”, as Francis Fukuyama would call it.

But the scope of this master thesis is not to romanticize the high goal for which so many young people have sacrificed their lives at the revolution, neither to debate the Western values, but to try and quantify, Romania’s economic, mainly financial industry, development for the past 20 years, and try to understand how much it has become a free market economy. For this purpose it starts with a description of how democracy has been introduced in Romania and what were the difficulties in this complex metamorphosis. Politically, economically and socially extremely challenging for a post communist country, Western values had now to be implemented. Queues had disappeared and prices have been liberalized, but how was the normal person prepared to face this brusque liberation? From a centrally-planned economy Romania had been transformed into a capitalist (dis)order economy. Somewhere in between East and West, with Ceausescu’s Romania gone and a new landscape trying to imitate Western values, people were feeling lost, like an animal that spends its entire life in a cage and is suddenly left free, without really knowing what being free should be like.

This master thesis tries to present the fascinating transformation process of Romania, with crises, strong depreciation of the national currency and increasing inflation, which are altogether very common for emerging market economies, and to observe the increase and development of the financial industry in a post communist country. Important foreign direct

investment, the growth of banks and of the number of them together with the development by these of the asset management industry in two decades time, is for certain a story worth looking at. Furthermore, this thesis has not just the purpose of illustrating the transformation process of Romania's economy and the importance the financial industry started to play in the economy as a whole, but also to try and find how dependent this industry is on political events. Is there a connection between money flows of investment funds and political elections? And if so, how strong could such a connection be? How far west did Romania go and how far east did it stay?

In order to best approach the economic development I have sometimes chosen comparison with other Eastern European countries as well as Western ones. The post communist world is worth looking at from many different perspectives regarding transformation, but the one this thesis is going to have as focus is the creation of the investment fund industry, its perception, growth and development as well as its link to the political scene.

A unique process in the world history, this transformation of the Eastern post-communist block into functioning democracies and free market economies, was not only challenging for the people who lived through it, but also challenging for an analyzer of the metamorphosis. How did the ideal of communism with everyone equal, and equally distributed wealth among the people brusquely change into the concept of private ownership? Could mentalities change that fast?

2. Democratization and Privatization

"The substance of the eminent Socialist gentlemen's speech is that making a profit is a sin. It is my belief that the real sin is taking a loss!" (Winston Churchill)

The end of the 1980s brought with itself important events that reinvented the geopolitical scene when the era of communism reached its end and the fresh breeze of democratization touched its former bastions. Romania faced a brutal and violent fall of the communist block fossilizing a heroic end of too many innocent victims. This violent revolution had put an end to a despotic head of state, a character around which a security apparatus has developed and affected every segment of society. Communist Romania, characterized by totalitarian ruling, was a closed system because of very little interaction with other countries. The moment communism became history Romania had to become something else. The metamorphosis required hard work on serious internal reforms of democratic nature as well as external relations. As of 1990 the civil society in Romania was not developed enough in order to face such changes and people were lacking knowledge regarding democracy and its procedures. The building blocks that constitute Western democracy, such as free elections, respect for human rights, a developed market economy, the rule of law, had to be inoculated into the population as values for the new system. The civil society had little influence on the political scene, as the non-governmental institutions had to grow to maturity from the embryonic state they were in at the moment. A learning process on both sides, political and non-political, had to be engendered, as the political actors were responsible for learning how to supply the interest of the public, while the non-political actors had to familiarize themselves with democratic procedures and means in order to be able to have control over the elite in power. The remainings of the communist system with its rigid structures and a high degree of centralization had influenced the structure of the new system and the actual decision power and authority remained in the hands of a few, the political elite, at least for some period. Whether this is still the case nowadays is an open question and will probably stay like this for much longer. This is why a very important characteristic of democracy, the participation of societal actors in the decision-making process, was, at least back then, a doubtful issue. Because the more influence the non-elite achieves over the elite, the more a society ascended toward democracy. (Stefan, 2009)

From an economic as well as social perspective, Romania was left by the so-called Ceausescu regime in stagnation. Privatizations started taking place in Romania case-by-case, contrary to the situation in the Czech Republic, Poland and the Slovak Republic, where mass privatizations occurred. In Romania, as well as in other former communist countries, privatizations were key to restructuring. A very important question in transition economies is how government may intervene in order to lead to a more quick restructuring of firms which will in turn speed up the transition to a developed market economy. (Pohl, Anderson, Claessens, Djankov, 1997)

2.1 Economic Transition

In the case of the Romanian economy, the long awaited transition from a centralized state economy to a market driven economy just started with the mid 1990s. The very long delay of the economic reforms was due to improper legislation, perpetual internal political conflicts and last but not least the lack of experience on the part of governments. Post revolutionary Romania was characterized by successive governments that were overpowered by the problems they were in charge to solve and, in addition, governments were also hampered by a society that found itself in turmoil. The aim of government was to maintain social peace and stability at any cost, so reform had to be sacrificed.

The reform government of the Prime Minister Petre Roman quickly came to an end in 1991 after multiple violent protests during 1990 and 1991 of the miners, who at that point in Romania were the most powerful industrial group. The years to follow have brought more protests and towards the end of the decade, in late 1999, violent protest in many cities forced a resignation of the government of Prime Minister Radu Vasile, which allowed a new reform government. This was a government of technocrats under Prime Minister Isarescu. These were the conditions, under which governments, continuing to remain heavily dependent on the electoral support from part of the industrial workers, were not willing to support reforms regarding restructuring of the economy. The problem of social peace was thought by the government to be solved by keeping the unemployment rate low, artificially, through financing state enterprises that were registering large losses and were delaying this way their closing. Companies would not be closed down, so the jobs would still exist.

The CDR centre right coalition government, towards the end of 1996, had unfortunately only little time to pave the way for some ambitious reforms, as it almost immediately had to face a full blown economic and financial crisis. Despite the deep and prolonged recession that began in 1996 and lasted until the end of 1999, reforms have known some success and were able to achieve large scale privatizations and also, very important, the restructuring of the banking system. (Private and confidential information)

2.2 Economic Crisis (1996 -1999)

An economic crisis was apparently needed in order to shake the governments out of the lethargy they had fallen into. This crisis forced the governments to act, because otherwise a total economic collapse was threatening to set in. Prior to the crisis, very little was accomplished in terms of economic and political reforms, as governments feared social upheavals and only ruled with timidity. Reforms were approached in a very chaotic manner and the truth is that the state continued to play a dominant role in both economy and society.

The year 1996 was a year with very poor conditions, a time when continuing pressures were made on the currency, the current account imbalance was ever widening and the mass privatization program was very imperfect. Causes behind the crisis were numerous, but the most important one was the absence of the political will of the government to force enactment of structural reforms from both economic and social perspectives. These weak points of the Romanian economy had to do with continuous political interference, embryonic capital markets, very poor competitive environment, widespread fiscal evasion, inappropriate legislation, no compulsory corporate governance and the lack of effective supervision of the financial system.

The emerging market crisis, which affected all CEE countries, also had an impact on the Romanian economy and multiplied the effects of the already existing crisis. The impact that the crisis had on the economy was illustrated by a sharp fall in GDP, the depreciation of the Romanian currency, Lei, and the explosion of inflation. The evolution of the GDP in the post revolutionary period reflected the absence of economic progress. The real GDP had fallen by 8,8% in 1992, it barely reached a growth rate of 1,5% in 1993, managed to rise in 1995 by 6,9% and registered a dramatic fall in 1997, reaching -6,6% and growth remained negative

until the end of 2000. In 1999, ten years after the revolution, GDP was just 74% of its 1989 level and GDP per capita reached only 80% of the 1989 levels.

Unproductive state sector companies continued to be financed by state sector banks, which ultimately led to a banking system crisis that required a transfer of credits and loans from state sector banks (Banca Comerciala Romana, Bancorex, Banca Agricola and the CEC) to the state banking recovery agency (AVAB) with the purpose of restructuring the system. This crisis that hit the banking system has also inevitably affected the private sector banks that were supported throughout this period by the National Bank of Romania (NBR) through special refinancing lines. Under this climate, Romania's domestic and external debt has risen and servicing these amounts of debt became a significant issue. This has brought about successive downgrades of Romania's sovereign debt ratings in 1998 and 1999. (Private and confidential information)

2.3 Market Liberalization and Privatization

Prior to the revolution the National Bank of Romania (NBR) was operating the Romanian banking system and it had two different roles. On the one hand it would act as a central bank and on the other hand it would be in charge of financing purchases for the state sector clients of different banks like Banca pentru Agricultura si Industrie Alimentara, Banca de Investitii and Banca Romana de Comert Exterior. After the revolution, in 1990, the NBR was only playing a traditional central bank role. Operations and commercial assets of the NBR and of the other banks, for which the NBR used to finance purchases, were taken over by their successor banks. State sector banks were formed in 1991 as joint stock companies according to the Banking Law and the Commercial Law. Private sector banks also received licenses and their numbers grew very rapidly. These newly born banks were under the control of business groups and domestic entrepreneurs, which, not surprisingly, were connected to political parties that took form after the fall of the communist block. Within the Romanian banking system, foreign participation was late to arrive and it was not until 1995/1996 that important foreign banks (ABN Amro, ING, Citibank) made their entrance into the scene.

Privatization efforts were of different mixtures, as there did not exist a political consensus as to how to approach the problem. Romania was ruled until 1996 by coalition governments of

the centre left. These governments were populated with the old generation of ex-communists that did not have a proper understanding for market reforms and a younger generation of ex-communist technocrats that could understand the mechanism of reform, but political and financial opportunism motivated them in a different direction. (Private and confidential information)

These were the conditions under which in 1995 the voucher program had been introduced, as part of the mass privatization program. This voucher program would allow people to exchange vouchers for shares in companies that were to be privatized or placed with one of the five POFs (Private Ownership Funds). This program turned out to be a failure given the market conditions present at the time. 17,000,000 vouchers had been issued and by early 1996, less than 10% of these had been exchanged for shares. As a consequence of this, the population became shareholders by default in one of the five POFs. The POFs together with the SOF were badly managed by political insiders with no competence. The SOF (State Ownership Fund) required restructuring in 1993 and it underwent another crisis in 1996, when the executive manager had resigned.¹ The status of the POFs was written in such a way that concentration of ownership was prevented. Shareholders of the POFs had no possibility of trading their shares on an open and regulated market until the POFs were converted into SIFs (financial investment companies) and were listed in 1999. (Earle, Kaznovsky, Kucsera, Telegdy, 2001)

Given the ill-functioning system with no effective controls, the sheer size and the number of the holdings, managerial abuse was common. Corruption was flourishing and rules were skewed to the advantage of business groups and domestic entrepreneurs that were related to a political party. The SOF had also privatized part of the assets through Management Buy Outs. These, as expected, were also mostly politically brokered deals. No wonder, the results of the first years of privatizations were inadequate, as the private sector share of GDP only registered 54,90% by 1996, when the crisis has set in.

No privatization in the banking sector had taken place prior to the crisis, as the governments continued to believe in the supremacy of the state in the banking system and considered that this would represent their key to control and manage the economic setup. But this could not continue like that and the crisis of 1996 mirrored the total mismanagement of the economy and of the banking system, which forced launching once more the privatization program.

The system was characterized by many weak links, such as underdeveloped system infrastructure, insufficient capitalization, very weak regulatory and supervisory structures, too much political interference, a much too high concentration of the market within the state controlled banks and the absence of a strategic move for the banking system. The resonance of the banking crisis grew stronger and stronger and it became clear for the government that without a serious reform, the entire system would be at risk. People would even lose that little confidence in the banking system that managed to survive and it would inevitably lead to a fast collapse of the entire banking system. What was to be done? It was clear that radical changes were needed and the way to approach the problem was thought by the government to be the following: more regulatory and supervisory power over commercial banks should be transferred to the NBR, pyramid schemes should be banned and provisions should be made for challenging economic times. The financing of the budget deficit through the NBR should come to a stop. It was easier to be said than done, as both the government and the NBR were poorly prepared to deal with such a set of reforms. Nevertheless, the situation required an immediate remediation, so AVAB – the banking recovery agency was created. This agency would take over the non-performing loans of important state sector companies like Bancorex, BCR, Banca Agricola and CEC. At the same time negotiations began between the Republic of France and Romania for the acquisition of BRD. At that time, from all the state banks, BRD was considered the most prepared to undergo a privatization process and no later than 1998 the successful sale of BRD to the French company Groupe Societe Generale had taken place. (Private and confidential information)

In 1999 a new reform program was introduced, one that was aiming to privatize the state sector banks, to introduce IAS (International Accounting Standards) and improved auditing procedures, to strengthen compliance for regulatory standards, increase NBR's power regarding supervision and regulation and dispose of the non-performing loans of the state banks. After the absorption of Bancorex by BCR in the summer of 1999 and the radical structural changes applied to the economy a series of important privatizations had materialized: Banc Post in 1999, Banca Agricola in 2001 and BCR in 2005.

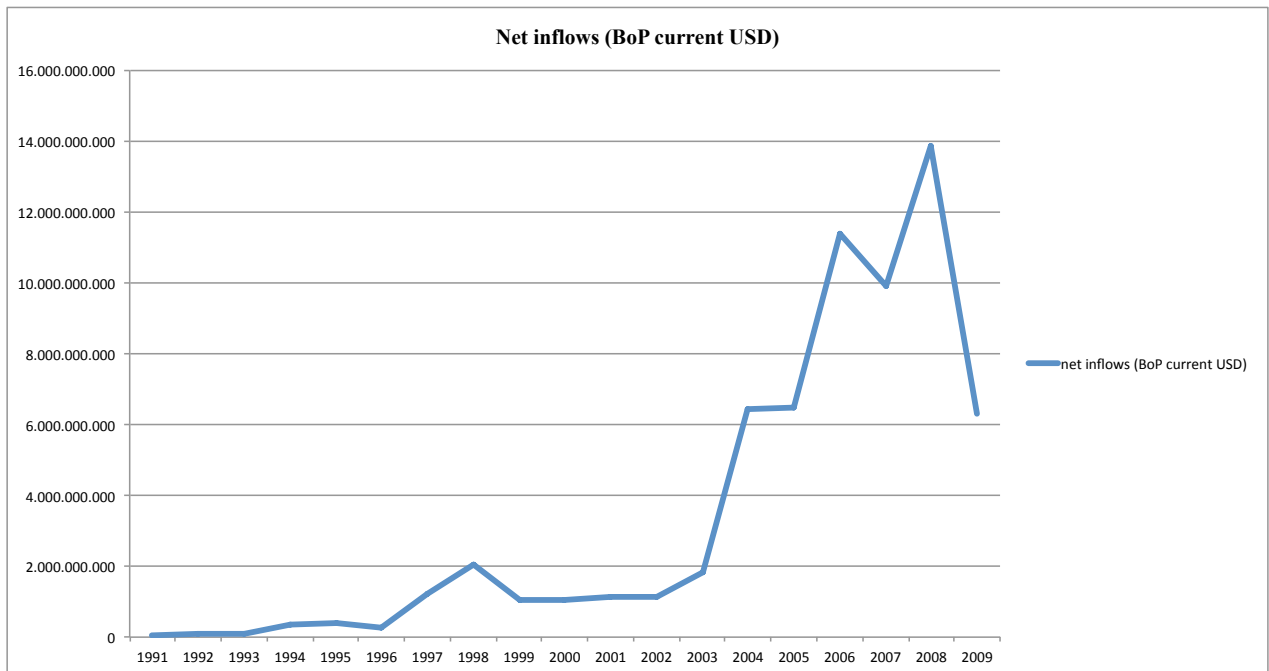
Since each of the state sector banks was eventually absorbed or privatized, they all commuted into universal banks. Nowadays, all large banks target their products and services to both retail and corporate client segments. All of the largest banks have enlarged their field of activity through the development of additional financial services: brokerage, insurance, leasing and asset management. (Private and confidential information)

2.4 Financial Markets

Since 1995, financial markets did not get any major role in the development of Romania's economy. Although legislation and the required regulatory environment exist, the BSE (Bucharest Stock Exchange) has only few companies listed, which do not represent a big interest to investors, since they are characterized by lack of liquidity and not sufficient financial disclosure. The return of foreign investors was not until 2004 – 2005 to which point the capital markets were the fairway for domestic business groups and entrepreneurs. This explains the fact that numerous high profile transactions happening in past years have become a popular issue of interest for anti - corruption investigators. New governments are preoccupied by examining the obvious, but at the same time dubious connection between politics and big business.

The emerging market crisis had no great effect on Romania's capital markets, as the embryonic state they found themselves in did not represent an appropriate stage for the presence of foreign investors. Despite of this fact, the investment inflows dropped hurtfully and FDI (foreign direct investment) reached its lowest level at USD 263 Mio in 1996, recovering in 1998 and reaching USD 2.040 Bio. The emerging market crisis also accounted for Romania's trade deficits between 1996 and 1999, as it has seriously affected its trade with other CEE countries. (Private and confidential information)

Figure 1: Foreign Direct Investment in Romania



Source: The World Bank

From the picture above, one can observe that foreign direct investment started to significantly increase in 2002 and continued to go up until mid 2007, when the financial crisis has set in. Since then it registered a continuous drop.

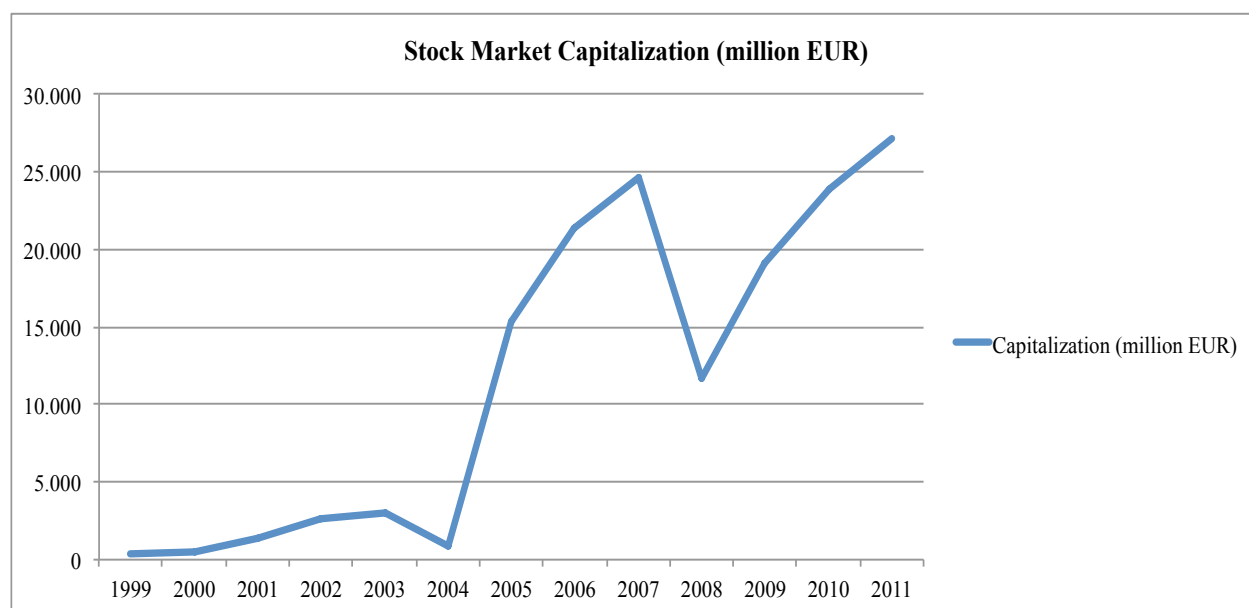
Another observed phenomenon was that many privatized companies through foreign acquisitions experienced de-listings. The BSE registers a market capitalization of EUR 27.088.828.077,59 as of June 3rd 2011, which is largely made up of a few important companies and therefore also few sectors of activity. As a consequence, the Bucharest Stock Exchange is characterized by weak diversification. (Private and confidential information)

Table 1: Stock Market Capitalization

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Capitalization (million EUR)	313	451	1.361	2.646	2.991	819	15.311	21.415	24.601	11.630	19.053	23.892	27.156

Source: Bucharest Stock Exchange

Figure 2: Stock Market Capitalization



Source: Bucharest Stock Exchange

The stock market capitalization registered a very beautiful development until the end of 2003, when it started falling and continued to drop until almost the end of 2004. The period after that was very fruitful for the Bucharest Stock Exchange, since many foreign investors brought foreign capital into the country and domestic investors had strong incentives to invest in stocks. The effects of the crisis meant a sharp, hurtful fall until the end of 2008, but recovery already started with the beginning of 2009 and by 2011 it exceeded the stock market capitalization that has been registered before the crisis.

In the figure below the BET Index is represented in Euro points. The BET Index is the first index to have been developed by the Bucharest Stock Exchange and it represents the benchmark for the stock market. The BET index includes the most liquid ten companies listed

on the Bucharest Stock Exchange. The very modest number of companies aggregated in this index, proves once again the embryonic state of development of the Bucharest Stock Exchange, and is therefore not even by far comparable to worldwide significant stock exchange indexes.

Analyzing the development of the BET Index, the first sign of the crisis can be observed in 2007, continuing for the entire year 2008 and half of 2009, after which a slow recovery can be noticed.

**Figure 3: BET Index
(EURO points)**



Source: Bucharest Stock Exchange

3. Asset Management

3.1 The Role of Asset Management Companies in the Funding of the Financial System

Asset Management plays an indispensable role in the growth of an economy. But what is actually the main task of asset management? Asset management is there for providing a connection between those who have the savings and those who need the funding. It links together investors that are looking for good investment vehicles and corporations, banks as well as government agencies that need the funding. The key finding here is that asset managers are offering investors the means to have a good management of their risks by diversifying their investments and reduce costs related to investments by the use of economies of scale. The job of asset management inevitably ensures good market liquidity, which is a vital component of well-functioning financial markets, at the same time achieving a lower cost of capital as well as more investment. In Europe, the Assets under Management (AuM) have reached EUR 12,4 trillion at the end of 2009, which represented a serious recovery compared to the year before, where it only registered EUR 10.9 trillion. Economic recovery continued to happen, as in 2010 numbers looked even better and the assets under management had risen to approximately EUR 13,8 trillion. In order to have an even better understanding of this number, expressed related to the GDP, the total amount of AuM in Europe is approximated to have registered 103% in 2010, at year end. (EFAMA, 2011)

Assets under Management are made out of two parts: on the one hand there are the mandates that the asset managers receive from high-net individuals and also institutional investors and on the other hand there are the investment funds which are meant to serve both retail and institutional markets. As of December 2009, the investment funds share from the total assets under management in Europe reached 50,1%, EUR 6.190 billion, while the discretionary mandates accounted for EUR 6.177 billion, the almost other half. (EFAMA, 2011)

3.2 UCITS and Non-UCITS Funds

The European investment funds market is characterized by a high degree of internationalization, since the domicile of a fund, its management, and its sales can be located in different countries. Because of this high degree of internationalization, investment funds are divided into two important groups: UCITS (Undertakings for Collective Investments in Transferable Securities) and non-UCITS. (EFAMA, 2011)

Funds that enter the category UCITS represent products, which comply with the UCITS Directive, which has the role to regulate the terms of supervision, separation of management, asset allocation, as well as the security of assets in order to ensure the highest level for the protection of the investor. The UCITS etiquette, a worldwide - recognized brand, is the best way for funds' promoters to approach the distribution of funds at a global scale. Major improvements to the UCITS label are expected with the introduction of UCITS IV and these enhancements are expected to increase even more the popularity and competitiveness of UCITS on the global scale savings market and for a long-term perspective. (EFAMA, 2011)

On the other hand there is the non-UCITS category, which includes collective investment vehicles that are subject to specific national laws. This category represents funds such as real estate funds and special funds, which address institutional investors. The non-UCITS label excludes funds from distribution in other EU Member States. Also in the case when these types of funds are regulated in conformity with similar UCITS regulations, they rarely achieve the stage of being distributed to retail investors abroad. (EFAMA, 2011)

As EFAMA (European Fund and Asset Management Association) statistics show, in terms of assets, top investment fund domiciles include: Luxembourg, France, Germany, Ireland, the UK, Italy and Spain. It is also interesting to observe that the financial crisis (2007-2009) has not affected this ranking, but the market share of Luxembourg, France, Germany and Ireland registered a slight increase from 68.5% in 2007 to 71.3% in 2009. (EFAMA, 2011)

Romania was the first Eastern European country to adopt the UCITS standards, this symbolizing a good sign for a healthy maturation of its economy. This way Romania manages to move towards statuses of similar funds abroad, where investment funds are subject to the

UCITS standards as Peter de Proft, Director General of the European Fund and Asset Management Association (EFAMA) is stating.

The AAF (Association of Fund Administrators) Deputy Chairman Dragos Neacsu declares that the Romanian fund trustees have voluntarily adopted the standard imposed by EFAMA and in conformity with this standard, the open-ended UCITS (Romanian acronym OPCVM) are divided into two subcategories: on the one hand there are the standard UCITS and on the other hand the UCITS that invest in short-term treasury bills, which have a maturity of less than 60 days. (Romanian News Agency, 2010)

3.3 How European Funds looked like Ex Ante and Ex Post Crisis

According to EFAMA statistics, assets of European investment funds have registered a growth of EUR 400 billion in 2007, to reach at the end of the year EUR 7.925 billion. If one divides the investment funds in UCITS and non-UCITS, EFAMA statistics show that total net assets of UCITS have grown by 4,2% to register EUR 6.203 billion at the end of 2007 and non-UCITS total net assets reached EUR 1.723 billion at year end, registering a growth of 5,3%. In spite of the first symptoms of the financial crisis that was represented by net outflows from UCITS during the third and fourth quarter of 2007, a positive development has been achieved overall. Net outflows of UCITS were the effect of an increased risk aversion within the European investors pool, these being aware of the first signs of a financial crisis. Further effects of a heightened risk aversion were observed in the European fund market, as investors changed the composition of their portfolios as the credit crisis was setting in in the summer of 2007. The reassessment of the portfolio composition meant a transition from investments in money market and dynamic funds to asset backed securities. Banking deposits as well as structured products, which were compiled in the opposite direction of the background of rising interest rates, were competing against investment funds. This has affected investment funds throughout Europe and it is very important to underline that, it makes sense to keep a certain proportion of long-term savings in equity, as this will eventually optimize returns from pension savings. (Delbecque, 2008)

For 2010 facts looked as follows: in Europe net inflows of UCITS amounted in the first quarter of 2011 to EUR 26 billion, while net sales of long-term UCITS accounted for EUR 39

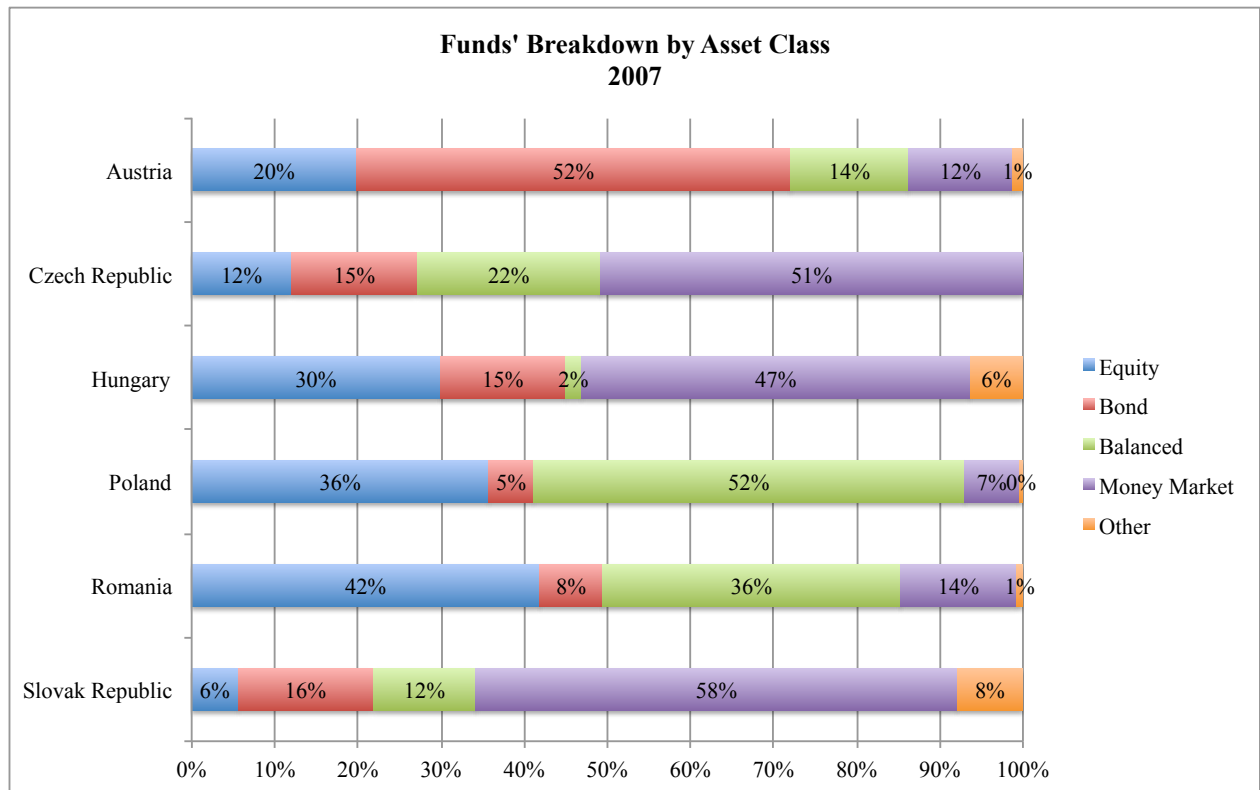
billion. Statistics showed that a sharp decrease in the net inflows of equity funds has been registered, falling behind to EUR 5 billion. An increase has been observed though in net inflows for balanced and bond funds of EUR 20 billion and EUR 7 billion. An insignificant level of net outflows the money market funds have experienced amounting to EUR 9 billion in this first quarter of 2011. This change was due to the fact that there has been a small increase in money market rates and also due to the belief that money market funds will become more stable portfolio assets. (Delbecque, 2011)

Furthermore EFAMA statistics show that total net assets of UCITS registered a decrease of 0.9%, to reach EUR 5.949 billion at the end of March 2011. Equity funds experienced a fall of 1.5 percent in net assets (EUR 32 billion), net assets of balanced funds grew by 1.3% (EUR 12 billion) and net assets of bond funds fell by 0.4% (EUR 6 billion) in the first quarter of 2011. In addition to this, net assets of money market funds declined by 2,6%, this representing EUR 31 billion. (Delbecque, 2008)

3.3.1 A Brief Review of Funds in CEE countries

In the figures below, statistics assess the change in the different asset class investments from 2007 to 2010. Funds breakdown by asset class regards a group of countries of interest from Central and Eastern Europe as comparison for Romania.

Figure 4: Asset Classes 2007

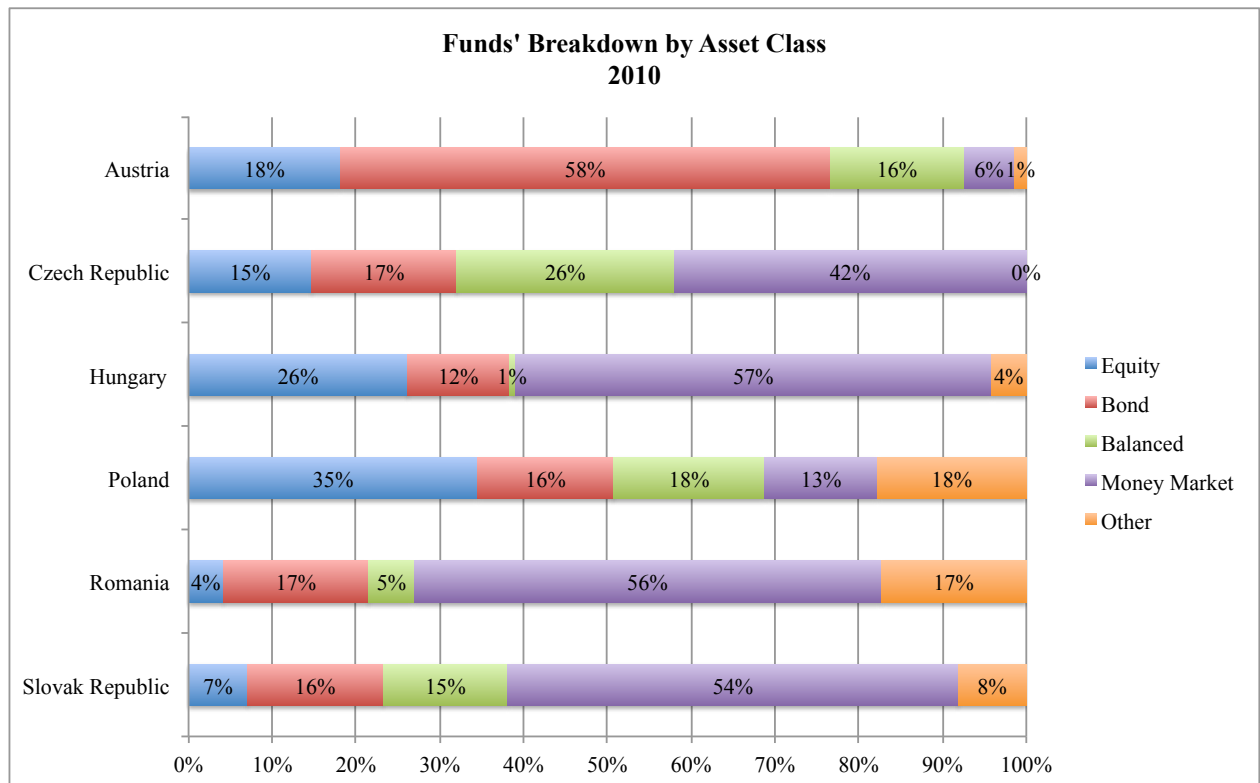


* funds of funds are not included

Source: Created with data from EFAMA Final Supplementary Tables 4th quarter 2007

One can observe from the above-presented statistics that money market funds were very popular in the Slovak Republic, Czech Republic and Hungary in 2007, while in Austria higher investments were registered in bond and balanced funds. In Austria, more than half of the investments into funds went into bond funds, a category that in the other presented countries is not so strongly represented. In Romania, on the other hand, a significant portion of the fund investments (42%) went into equity, while only approximately 8% were targeted on bond funds. This is an important signal of pronounced risk-taking behavior from part of investors there. Balanced funds are also popular investments among the fund investments in Romania represented here with 36%. Poland portrays a high preference for balanced funds, represented in 2007 with 52% of the investments. Equity funds were also a popular category in Poland before the crisis. Hungary as well exhibits strong investment into equity funds (around 30%) in 2007.

Figure 5: Asset Classes 2010



* funds of funds are not included

Source: Created with data from EFAMA Final Supplementary Tables 4th quarter 2010

In this second figure illustrating funds' breakdown by asset class at the end of 2010, investments in equity decreased overall and those in money market and bonds have significantly increased in popularity. Compared to 2007, it is observable that Romania has shifted strongly from investments in equity funds to investments in money market funds, and also increased its share in bond funds. This is a typical behavior for crisis situations, as the latter investments are more stable and therefore safer. In the case of Austria, one cannot observe very significant changes in the asset class investment from 2007 to 2010, which might also be a sign for a stronger, better developed and mature economic environment.

The years before the financial crisis were characterized by extensive foreign direct investment in Romania, which inevitably increased the confidence of investors there and led to overvaluation of stocks. Those were years when everyone that bought stocks had won without any know how about valuation of these or understanding economic concepts. This wave of optimism increased the price of stocks to unbelievable levels. People thought in their naivety

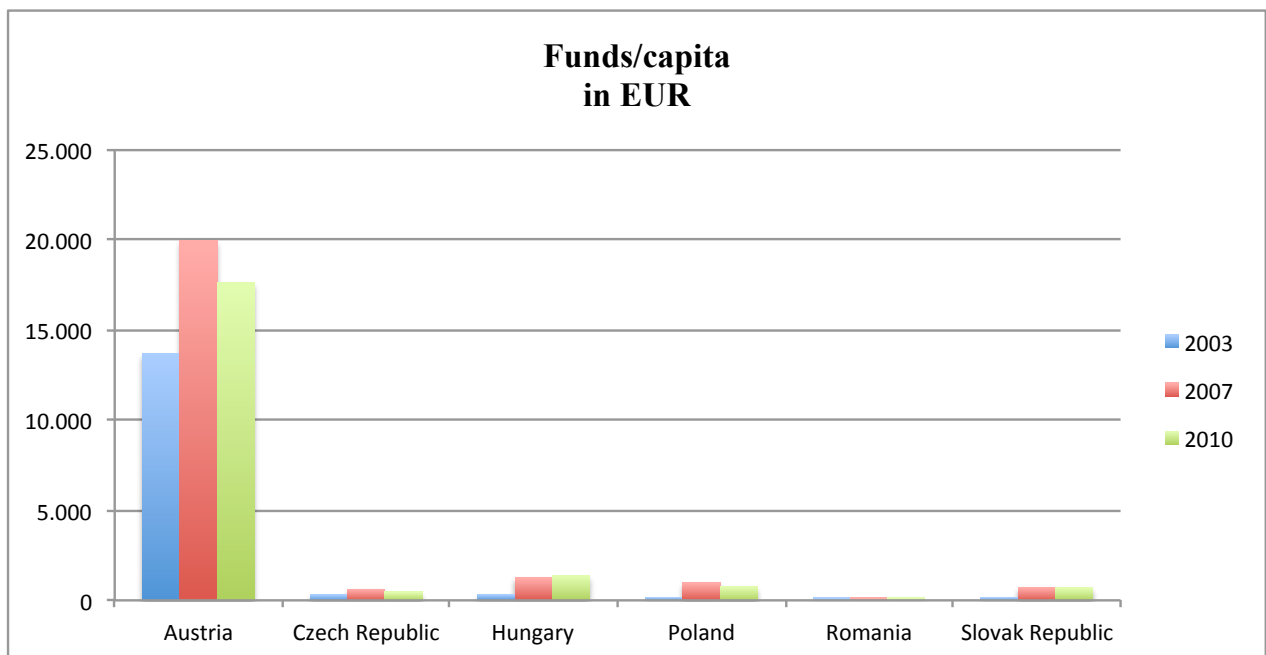
that this bubble would never explode and their portfolios will keep getting fatter and fatter. The truth was unfortunately dramatic and with the financial crisis people had lost their confidence in equity investment, as they were also lacking economic education. And by economic education I do not want to address an economic study, but just plain experience with investments. Most investors were undertaking investments in Romania because they saw their neighbor, their cousin, their friend getting rich, and they were all advising him to invest in stocks, like anyone else did. In contrast to this, in countries with more mature economic and financial markets, investments are something that people learned to deal with. One will further see that a proof of this is the funds per capita ratio, which shows a more pronounced investment education in Austria than in all other CEE countries presented here. And to put this in one sentence, Romania has too quickly transcended from a “money in socks” culture to almost everyone being an investor because they were advised so. This pretty much explains the absence of a solid investment culture and of its meaning for the functioning of markets among the big wave of naive investors in Romania before the crisis.

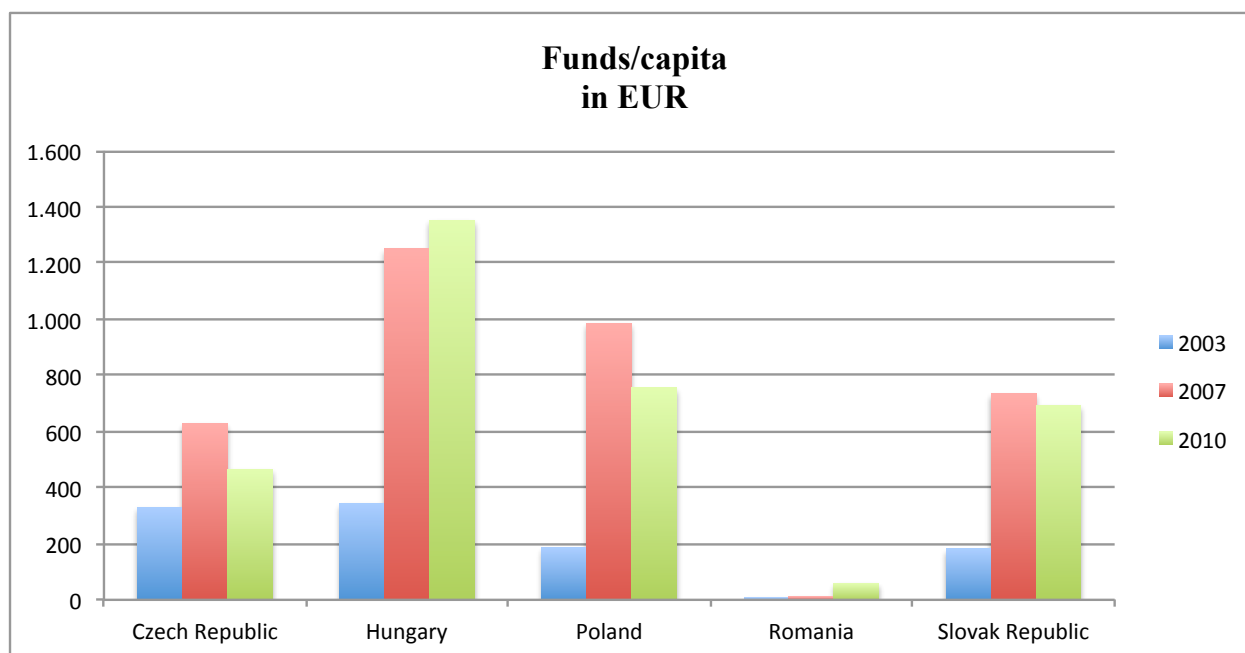
Regarding the rest of the countries, one notices as well only small changes in countries like the Czech Republic, Hungary and the Slovak Republic. They all present a small decline in equity funds investments, the exception being only the Slovak Republic, where in 2010 one can observe a very small increase in the equity funds investments. Poland exhibits a strong change of investment pattern. Balanced funds’ size shrunk significantly from 2007 to 2010, while bond, money market and other types of funds gained popularity.

In the following figures and tables, statistics regarding the degree of development of the investment fund industry in Eastern Europe are illustrated. Romania is presented here in comparison with Czech Republic, Hungary, Poland, and the Slovak Republic and further on, also Austria, as Austrian capital represents an important share of the foreign direct investment in Romania. Ratios presented here are relevant for the assessment of the degree of development of the investment fund industry, which also implies the degree of development of the economy. The following ratios are selected here: funds per capita and funds per GDP. Another important point shown here is the amount of assets under management (AuM). Each of these illustrations includes two figures: one including Austria and the other one excluding it. The first is for the purpose of portraying the huge difference between Austria and all the other countries regarding the degree of development of the investment fund industry. The second has the purpose of showing more clearly the development of the post-communist

countries regarding the different ratios and assets under management, since on the first scale, which includes Austria, they are barely visible. Since the purpose is to assess the development in these CEEC (Central Eastern European Countries), there are three different points in time taken here into consideration: ex ante financial crisis, beginning of financial crisis and ex post-financial crisis. Data has been collected from IMF (International Monetary Fund) and EFAMA (European Fund and Asset Management Association). Regarding data from IMF, the USD/EUR exchange rate for the conversion into EUR has been calculated from the ratio between Austria's GDP in USD and Austria's GDP in local currency (EUR) for each year of interest. This exchange rate has then been applied for all the other countries for the conversion of the data given in USD in EUR.

Figure 6: Funds per capita measured in EUR (including and excluding Austria)



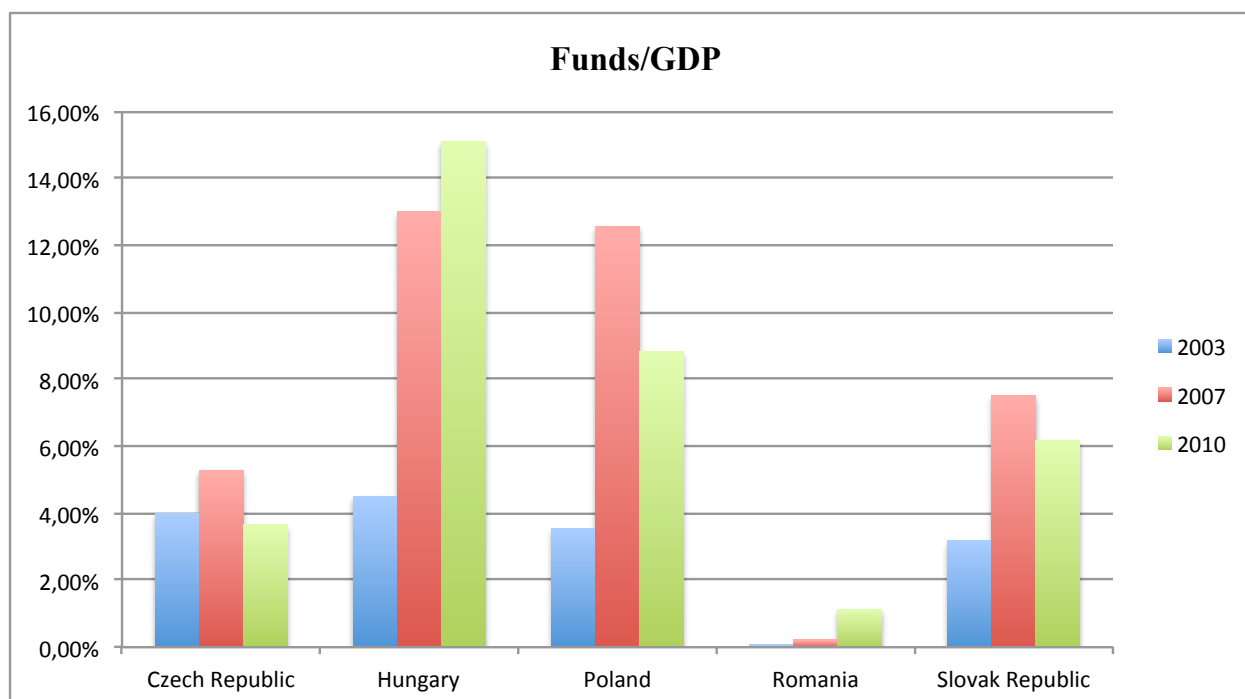
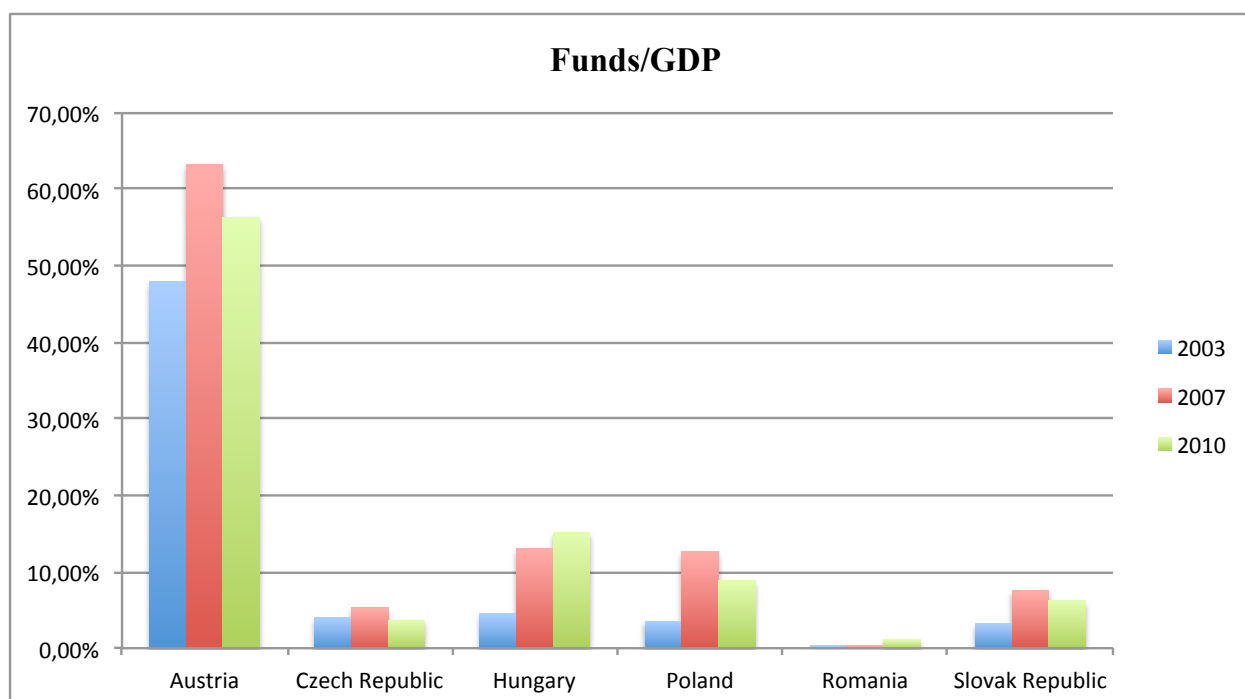


* funds of funds are not included

Source: Created with data from IMF, EFAMA Quarterly Statistic Release Q4 2010, EFAMA FactBook 2009, EFAMA Final Supplementary Tables 4th quarter 2003, 2007 and 2010

As illustrated in the figure above, one could see that in more developed economies, like that of Austria, Hungary, the Slovak Republic and Poland a very significant increase in funds per capita has been registered in the period ex ante financial crisis (2003-2007), an increase that was decelerated or even pulled back (Austria, Poland, Slovak Republic) by the crisis. The Czech Republic also exhibits an important increase in funds per capita (the number has approximately doubled) between 2003 and 2007, and experienced a fall of about one third of the previous level in the years after (2007-2010). Romania, on the other hand registered a higher increase in funds per capita in the recession period (2007-2010) than before the financial crisis. Romania entering the European Union on the 1st of January 2007 could have been a strong reason behind this. It is to be noted that, the expectations of Romania's funds development after 2007 were much greater than the actual result, this given the unexpected financial crisis, which had a very hard impact on Romania's economy.

Figure 7: Funds per GDP (including and excluding Austria)



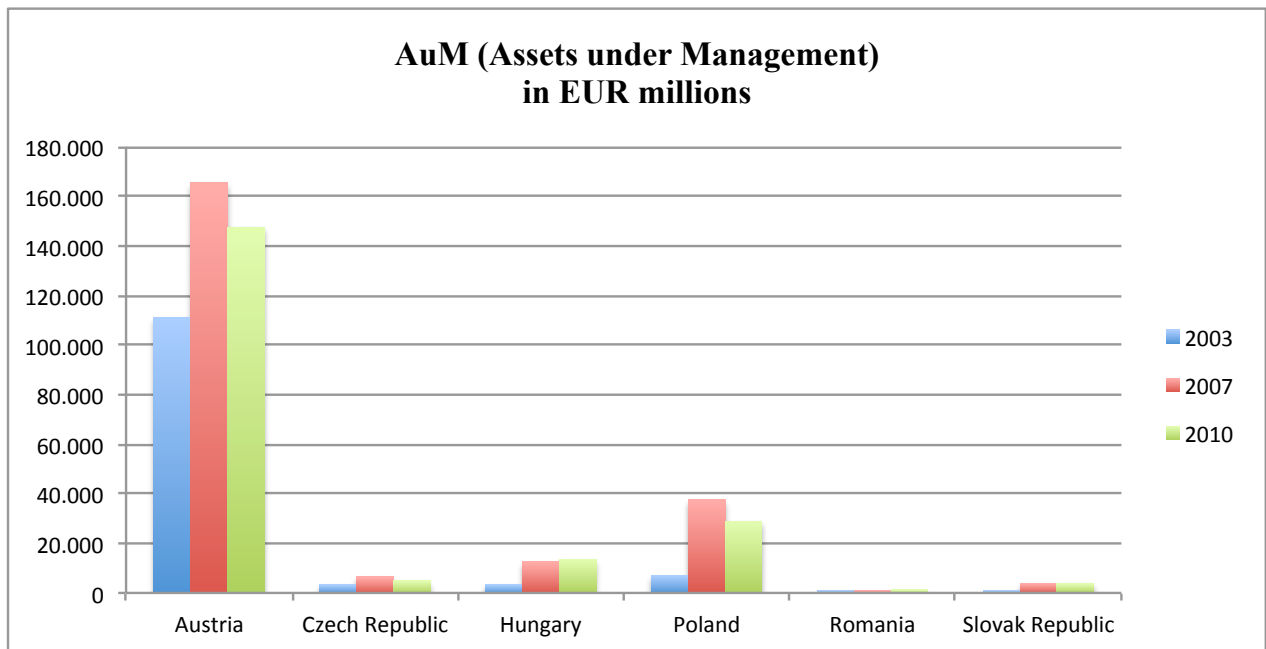
* funds of funds are not included

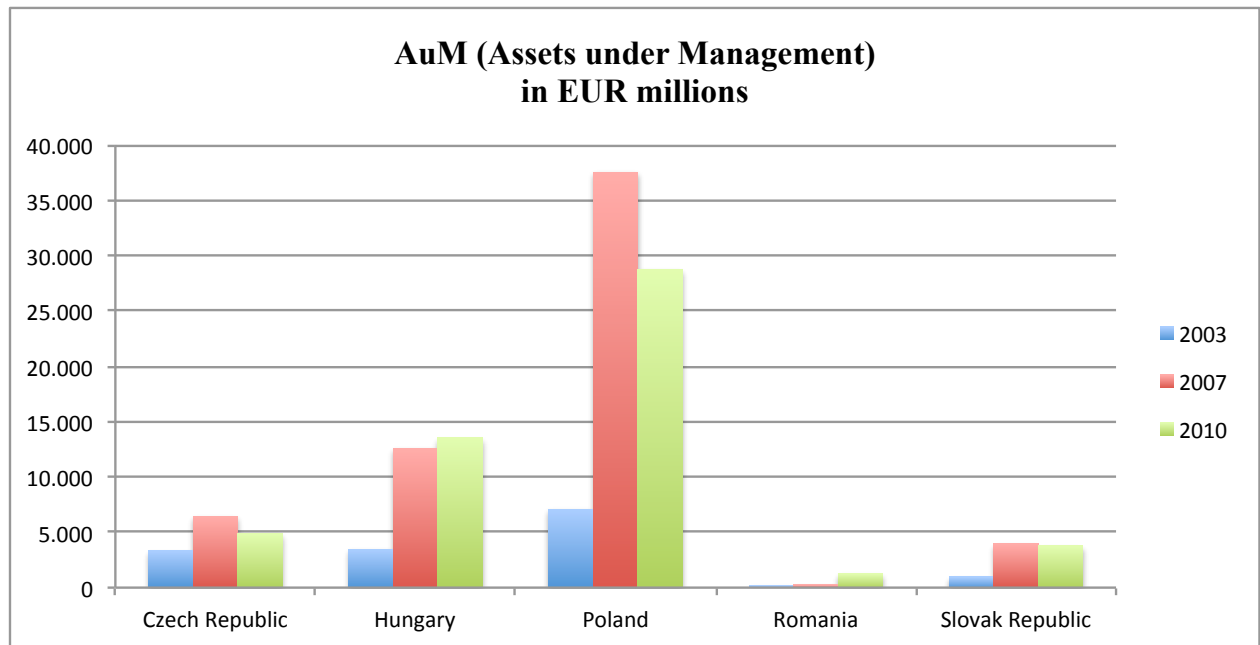
Source: Created with data from IMF, EFAMA Quarterly Statistic Release Q4 2010, EFAMA FactBook 2009, EFAMA Final Supplementary Tables 4th quarter 2003, 2007 and 2010

The ratio of funds per GDP, illustrates very similar results as for funds per capita. To observe is that in Romania the difference between funds per GDP in 2007 and 2010 is greater than in

the case of funds per capita in these two periods, which can be explained by the fact that there was a decrease in GDP in the crisis years. Furthermore, if one compares these results to those of a developed, mature economy like Austria, where funds per GDP reached almost 50% in 2003, around 60% in 2007 and dropped down to around 50% in 2010, these CEE countries prove once again to be in the developing stage, still far behind economic maturity. Here, when observing Romania in comparison with the other CEE countries, one may conclude that Romania hides a lot of growing potential and seems to only be at the beginning of an important development stage.

**Figure 8: Assets under Management measured in EUR millions
(including and excluding Austria)**





* funds of funds are not included

Source: Created with data from IMF, EFAMA Quarterly Statistic Release Q4 2010, EFAMA FactBook 2009, EFAMA Final Supplementary Tables 4th quarter 2003, 2007 and 2010

Regarding assets under management, there are again very similar results to the previous two figures. One can see an extremely beautiful increase of the amount of AuM by 2007, which was affected in the years after, more severely in Austria, Poland, Slovak Republic and Czech Republic, where it didn't just decelerate the ascending trend, but it also brought to a decrease compared to the status quo of 2007. In Romania, a nice increase is observed by 2010 compared to 2003 and 2007, but this increase was still far behind the expected development boom.

In the tables to follow, we align all these numbers analyzed including the GDP per capita ratio for a better comparison between the economic development of the country and its investment fund industry. Data for Austria is also included, which sometimes was taken out in the figures, because otherwise the other countries' results wouldn't have been noticeable anymore. The country of our focus is Romania, which we present, compared with other CEE countries.

Figure 9: CEE Fund Statistics 2003

2003				
	Funds/GDP	Funds/capita in EUR	GDP/capita in EUR	AuM in EUR millions
Austria	47,89%	13.676	28.559	111.020
Czech Republic	4,00%	328	8.221	3.351
Hungary	4,51%	343	7.603	3.477
Poland	3,55%	185	5.210	7.076
Romania	0,05%	1	2.512	29
Slovak Republic	3,19%	182	5.690	977

* funds of funds are not included

Figure 10: CEE Fund Statistics 2007

2007				
	Funds/GDP	Funds/capita in EUR	GDP/capita in EUR	AuM in EUR millions
Austria	63,26%	19.947	31.534	165.584
Czech Republic	5,29%	629	11.890	6.471
Hungary	13,00%	1.251	9.618	12.590
Poland	12,58%	985	7.833	37.558
Romania	0,22%	12	5.562	265
Slovak Republic	7,51%	735	9.785	3.969

* funds of funds are not included

Figure 11: CEE Fund Statistics 2010

2010				
	Funds/GDP	Funds/capita in EUR	GDP/capita in EUR	AuM in EUR millions
Austria	56,31%	17.619	31.289	147.591
Czech Republic	3,65%	465	12.720	4.883
Hungary	15,10%	1.352	8.958	13.541
Poland	8,82%	755	8.555	28.757
Romania	1,14%	60	5.246	1.282
Slovak Republic	6,19%	693	11.202	3.763

* funds of funds are not included

Source: Created with data from IMF, EFAMA Quarterly Statistic Release Q4 2010, EFAMA
Final Supplementary Tables 4th quarter 2010

As shown in the figures above, Romania is the least developed country from the CEE region countries represented here by the above sample. Despite of this fact, one could observe an important progress in its development of the investment fund industry even in more difficult

years governed by the effects of the financial crisis. Romania managed to grow from 0,05% funds per GDP in 2003 to 0,22% in 2007 and reach 1,14% in 2010. A crucial role here played for certain also the fact that Romania entered the European Union in 2007, which required continuous and significant economic development, since it received important financial support. It is admitted that its development was strongly slowed down by the economic recession, but the forecast for the near future expects a significant development in the fund market for Romania, as well as for Poland. If one takes a look at the GDP per capita ratio compared to funds per capita ratio among all countries, one observes that there is significant potential for important development also in Czech Republic and the Slovak Republic. For example, both the Czech Republic and the Slovak Republic have a higher GDP per capita than Hungary, but Hungary exhibits a lot more funds per capita than both these countries. The same kind of dissonance can also be observed with Poland and Romania. Here as well, the gap regarding GDP per capita between these and other comparable countries is a lot smaller than the funds per capita gap between the same countries.

3.4 Brief History of the Romanian Investment Funds

The roots of the Romanian investment funds are to be found in 1993-1994, when the first generation of open-end funds (FDI) was born. This was a time when CNVM (National Commission of Securities) did not exist yet or other market regulations. In 1995 the next generation of investment funds was born. In the spring of 1996 the Instruction No.6 regarding the net asset value computation, has been introduced by CNVM. Only one month later, FMOA (Mutual Fund of Business People) has taken the decision to decrease the unit net asset value and after this FMOA crisis has started and redemption reached dramatically high numbers. Causes of the crisis were overvaluation of certain assets, commercial bank crises, and very high market sensitivity as well as the lack of capital investment instruments and of a proper legal framework. The years 1996 and 1997 were to bring about a decrease in redemption at a reduced capital investment volume. On the one hand there were funds that started to develop very strongly, but on the other hand there were also funds, which slipped into a slow depreciation. In 1998 and 1999 important developments have taken place. A very strong increase in the number of investors has been registered: it reached more than 239.000, which represents a number three times higher than the one at the end of 1997. The number of units issued also increased spectacularly, growing 12 times higher than in 1997. Asset volume amounted to 2.880 billions ROL and this was 14 times more than the accounted number at the

beginning of 1999. More than 80% of the assets were monopolized by the FNI (The National Investment Fund). In this fund the average unit value registered an increase of almost 3 times and the liquid assets made up between 31% and 36% of the total, as an average value. The portfolio was concentrated here on monetary instruments, although non-quoted stocks represented an important part of the portfolio. Another important event took place on the 1st of November 1999, when the Financial Investment Companies (SIFs) had been listed at the Bucharest Stock Exchange (BSE), to become stars of the BSE not long after their listing. (The Romanian Association of Asset Managers)

The year 2000 was the year when FNI became history. At the beginning of 2000 the ascending trend had continued, but grave management errors were soon to be accounted for. These management errors were embodied by lack of liquidity and of depository, which triggered the manipulation of the computation of the net asset value. This serious mismanagement had come to surface the moment a significant wave of redemption (May 2000) has taken place, after which it was impossible to recover. CNVM (National Commission of Securities) suspended the management company immediately and the national investment fund found its end. The collapse of FNI, the largest fund, represented a loss of 50 million USD for the unit holders. (Private and confidential information) (The Romanian Association of Asset Managers)

This crisis has also spread to affect other existing funds at the time and this has brought some negative developments of the investment fund industry during the same year: number of investors decreased dramatically to 41.700 and the net asset volume only reached a modest number of 196,4 billions ROL towards the end of 2000. (The Romanian Association of Asset Managers)

A very welcome breeze of recovery came in 2001, when the net asset value has risen by 70% and also very important, the average increase of the unit value was greater than the inflation rate, which in turn explains a real increase. Despite of this, the number of investors registered a 7% decrease, while the average investment has increased by important amounts. An explanation to this phenomenon would be that the important and more versed investors have regained their lost confidence. Although two crises have challenged the investment funds in Romania, the number of open - end funds that are under the management of UNOPC (now A.A.F.-The Romanian Association of Asset Managers) members would increase from 8 in

1997 to 3 times higher (24) towards the end of 2001, which showed significant interest in this field of investment. This encouraged the creation of new management companies by the brokerage companies as well as by some strong and valuable foreign investors. The concept of fund has developed as well and investment funds had begun to diversify their objectives. The period from 2000 to 2002 was the time governed by portfolio restructuring, the introduction of new monetary and securities funds as well as a time when investors regained their trust. What is realistic to expect for the future is a continuous increase in the number of asset management companies, so more competition in the market, development of family's funds as well as superior performances of other different options for investment. (The Romanian Association of Asset Managers)

3.5 Romanian Investment Funds: Facts and Figures

The UNOPC changed into AAF on May 2008, this representing the Romanian Association of Asset Managers. The AAF is a full member of EFAMA and its present portfolio consists of 19 asset management companies (S.A.I.), 58 Undertakings for Collective Investment in Transferable Securities (UCITS open end funds - OPCVM), 19 Non - UCITS (closed end funds - AOPC), 5 Financial Investments Companies and 3 depositary banks. These 5 Financial Investments companies (the 5 SIFs) are Non – UCITS (closed - end investment companies), which are based on instruments of incorporation. These instruments issue only a limited number of shares and are, as already mentioned before, also listed on the Bucharest Stock Exchange. (The Romanian Association of Asset Managers)

In the following tables the development of net assets for both Non - UCITS and UCITS funds and of net sales for UCITS funds is presented.

Table 2: Non-UCITS – Closed - end Funds – Net asset value

Non U.C.I.T.S.- closed end funds -												
2011 / month	money market funds			equity funds			other			TOTAL		
	NAV mill.RON	growth	funds pcs	NAV mill.RON	growth	funds pcs	NAV mill.RON	growth	funds pcs	NAV mill.RON	growth	funds pcs
Mai	0	0.00%	0	61.966	-7.40%	7	175.1	3.70%	12	237.061	0.10%	19
April	0	0.00%	0	66.889	-2.90%	7	168.87	7.30%	11	233.361	3.10%	18
March	0	0.00%	0	68.92	7.40%	7	157.32	2.42%	9	226.244	3.89%	16
Febr.	0	0.00%	0	64.167	4.00%	7	153.61	15.40%	9	217.777	11.80%	16
Jan.	0	0.00%	0	61.714	9.70%	7	133.08	8.40%	9	194.789	8.82%	16
Year												
2010	0	0.00%	0	56.265	4.70%	7	122.74	8.70%	9	179.005	7.40%	16
2009	0	0.00%	0	48.324	30.50%	6	84.929	97.10%	7	138.253	72.30%	13
2008	0.123	1.65%	1	37.04	-76.06%	6	43.089	55.89%	4	80.252	-56.02%	11
2007	0.121	-99.93%	1	154.725	824.39%	5	27.641	145.96%	1	182.487	-8.73%	7
2006	164.259	75.20%	1	16.738	695.10%	3	18.937	100.00%	1	199.934	104.48%	5
2005	93.747	-63.2%	1	2.105	-	1	0	0	0	97.773	-61.6%	2
2004	254.43	921%	1			0	0	0	0	254.430	921%	1
2003	24.92	-	1			0	0	0	0	24.920	-	1

Source: The Romanian Association of Asset Managers

In this first table one can observe the immense loss investors made with money market closed-end funds in 2007, with a drop of 99,93% in the net asset value. Equity funds of the same category registered amazing growth during 2006 and 2007: 695,10% and 824,39%. The crisis left its mark and in 2008 equity funds registered a dramatic fall of 76,06%. Other funds also seem to have been productive during 2006 to 2009, to reach only small, but good growth afterwards. At present, equity registers negative growth, money market no growth and other funds only very small growth. The net asset value is greatest for equity funds, amounting to 61.966 million RON.

Table 3: Net Assets of the 5 SIFs

Financial Investments Companies, statistics of THE NET ASSET VALUE (millions RON)										
Period 2011	BANAT-CRISANA	%	MOLDOVA	%	TRANSILVANIA	%	MUNTENIA	%	OLTENIA	%
April	1418.3	1.6	1266.9	2.1	1531.6	2.2	1488.5	-1.3	1628.2	-1.2
March	1395.6	0.8	1239.9	2.8	1498.6	-1.3	1508.8	2.8	1648.7	1.9
Febr.	1384.0	0.0	1205.4	1.2	1519.4	0.1	1466.4	0.5	1617.7	1.4
Jan.	1384.5	1.7	1191.1	4.3	1517.4	0.7	1458.6	3.2	1594.1	2.3
Years:										
2010	1361.4	-11.7%	1141.2	-3.1%	1506.4	-7.4	1412.6	-4.4%	1557.4	-5.2%
2009	1541.5	52.4%	1177.5	22.9%	1627.8	21.9%	1477.6	6.4%	1643.4	45.6%
2008	1011.3	-50.1%	957.9	-46.5%	1335.1	-51.7%	1389.1	-35.9%	1128.2	-59.1%
2007	2024.8	33.5%	1789.2	31.8%	2764.1	76.4%	2166.3	65.8%	2756.8	38.0%
2006	1516.9	54.6%	1357.7	58.1%	1566.9	49.0%	1306.8	48.9%	1997.9	53.7%
2005	981.4	57.5%	858.7	60.5%	1051.3	45.6%	877.7	66.3%	1299.7	67.4%
2004	623.2	21.1%	535.1	29.1%	722.0	42.7%	527.7	1.9%	776.3	39.0%
2003	514.6	14.2%	414.6	30.2%	506.1	-6.8%	518.1	25.5%	558.4	18.3%
2002	450.7	39.6%	318.4	78.7%	543.2	58.7%	412.7	29.4%	471.9	62.4%
2001	323.0	51.6%	178.2	75.0%	342.3	37.1%	318.9	32.1%	290.5	47.2%
2000	213.1	-	101.9	-	249.6	-	241.5	-	197.3	-

Source: The Romanian Association of Asset Managers

Table nr. 6 illustrates the net assets of the five Financial Investment Companies. These five SIFs correspond to the main five geographical regions in Romania: Banat – Crisana, Moldova, Transilvania, Muntenia and Oltenia. From the data in the table it is observable that at present the highest net asset value is held by SIF Oltenia, this region being situated in the Southwestern part of Romania. The one with the least net asset value is SIF Moldova, a region situated in the Northeastern part of Romania. In 2007 when the crisis has started, SIF Transilvania, followed by SIF Oltenia, registered the highest net asset value. One can observe the severe effects of the crisis if one compares the results for 2007 and 2008; the net asset value for all SIFs has become half. In 2008 SIF Muntenia registered the best result out of the five SIFs. Muntenia is the region where the capital, Bucharest, is located. The regions Banat - Crisana and Transilvania, are regions where a lot of foreign direct investment has taken place in the last years. What is striking to observe, is that none of the five SIFs has managed so far to reach once again the net asset value they have reached before the crisis, which shows that they are still recovering. An additional interesting aspect of the SIFs is that legislation does not allow either physical or juridical person to hold more than 1% share in any of the five SIFs.

Table 4: Net Asset Value Evolution of UCITS Funds

UCITS																					
2011 / Month	money market			Bond			Balanced			Equity			Fund of funds			Other			TOTAL U.C.I.T.S.		
	NAV mil. RON	Growth	funds pcs	NAV mil. RON	Growth	funds pcs	NAV mil. RON	Growth	funds pcs	NAV mil. RON	Growth	funds pcs	NAV mil. RON	Growth	funds pcs	NAV mil. RON	Growth	funds pcs	NAV mil. RON	Growth	funds pcs
May	3431.024	3.50%	7	1174.591	2.90%	5	310.041	-4.50%	23	227.704	-5.20%	15	9.586	-2.20%	1	1287.529	7.20%	7	6440.475	3.30%	58
April	3316.077	0.50%	7	1141.234	2.40%	5	324.616	-0.60%	23	240.214	-1.80%	14	9.798	0.10%	1	1201.146	3.60%	7	6233.085	1.30%	57
March	3298.752	1.10%	7	1114.518	6.30%	5	326.538	2.50%	23	244.716	3.10%	14	9.793	1.90%	1	1159.320	9.60%	7	6153.637	3.70%	57
Febr.	3264.383	3.50%	7	1048.328	6.00%	5	318.704	5.20%	23	237.349	3.60%	14	9.609	1.30%	1	1058.153	7.30%	7	5936.526	4.70%	57
Jan.	3154.25	3.20%	7	989.088	3.70%	5	303.079	3.10%	23	229.128	1.80%	14	9.486	2.80%	1	985.938	3.80%	7	5670.967	3.33%	57
Year	1996 - 2010																				
2010	3056.12	40.0%	7	953.596	-2.60%	5	293.979	0.10%	23	225.185	2.70%	14	9.231	4.40%	1	949.958	4.30%	7	5488.071	63.81%	57
2009	1787.47	411.60%	5	731.963	197.60%	9	257.485	27.40%	17	187.087	119.10%	9				386.356	568.00%	11	3350.358	256.20%	51
2008	349.407	164.67%	5	245.954	236.37%	10	202.122	-41.17%	18	85.385	-78.58%	11				57.84	7.23932	8	940.708	-1.42%	52
2007	132.014	3.21%	3	73.119	0.1931	8	343.572	43.32%	15	398.536	95.09%	14				7.02	-	1	954.261	50.70%	41
2006	127.913	18.42%	2	61.285	21.10%	7	239.72	121.52%	11	204.283	182.63%	12							633.201	86.72%	32
2005	108.012	-9.78%	2	50.608	99.55%	6	108.218	134.72%	7	72.28	285.08%	8							339.118	61.5%	23
2004	119.723	-	2	25.361	-	6	46.105	-	6	18.77	-	5							209.960	125.0%	19
2003																			93.300	2.8%	20
2002																			90.72	170%	20
2001																			33.63	89.40%	21
2000																			17.759	-93.8%	15
1999																			288.06	189.4%	16
1998																			99.513	428.9%	10
1997																			18.815	105.1%	8
1996																			9.174	-	11
	no funds classification																				

Source: The Romanian Association of Asset Managers

In the case of UCITS funds one observes mostly the same results as for the non-UCITS funds. Equity funds here have also experienced a hard fall after the crisis has set in, effects that are still visible today. A difference though to the non-UCITS equity funds is that the UCITS ones have registered significant growth in the years before the crisis (285,08%, 182,63%, 95,09%), while the non-UCITS impressed by immense growth of 695,10% and 824,39%. Money market funds have gained here very much in popularity after the crisis, since investments in equity before the crisis, transited to investments in money market funds afterwards, as also shown before in the tables illustrating the funds' breakdown by asset class. Bond funds became as well a desired investment after stock prices registered dramatic falls and investors became more risk-averse. Balanced funds also entered the popular ex post crisis category, until April 2011. Funds of funds only registered a modest growth during the past years to even achieve a negative growth in May 2011. Other type of funds have small, but positive growth in net asset value.

Table 5: Net Sales Evolution of UCITS Funds

Period 2011	Operation type (mill. RON)	U.C.I.T.S.						All U.C.I.T.S.
		Money Market	Bonds	Balanced	Equity	Fund of funds	Other	
May	Sales	321.905	57.875	3.724	9.295	0	169.565	562.364
	Redemption	226.517	32.971	12.311	11.882	0	99.447	383.128
	Net sales	95.388	24.904	-8.587	-2.587	0	70.118	179.236
April	Sales	257.754	46.694	3.39	2.585	0	117.63	428.053
	Redemption	223.669	26.575	3.889	3.06	0	68.458	325.365
	Net sales	34.085	20.119	-0.499	-0.475		49.458	102.688
Q1	Sales	770.995	206.699	19.523	14.255	0	412.685	1424.157
	Redemption	583.199	66.32	6.381	14.181	0	175.638	845.719
	Net sales	187.796	140.379	13.142	0.074		237.047	578.438
2010	Sales	3459.005	654.297	129.752	132.442	0	1143.12	5518.616
	Redemption	2416.462	500.368	155.82	94.278	0	592.57	3759.5
	Net sales	1042.543	153.929	-26.068	38.164	0	550.55	1759.116
2009	Sales	2586.883	720.626	88.406	52.9		521.8	3970.615
	Redemption	1282.653	289.058	73.374	26.3		42.9	1714.285
	Net sales	1304.23	431.568	15.032	26.773		478.9	2256.503
2008	Sales	407.434	304.111	91.044	119.625		10.132	932.346
	Redemption	204.451	149.697	114.053	137.861		11.425	617.487
	Net sales	202.983	154.413	-23.008	-18.236		-1.293	314.859
2007	Sales	147.893	112.825	185.066	375.944		7.149	828.877
	Redemption	151.192	109.965	103.718	234.912		0.094	599.881
	Net sales	-3.299	2.860	81.348	141.032		7.055	228.996
2006	Sales	180.64	76.04	160.23	181.43			598.340
	Redemption	146.11	68.68	39.92	68.96			323.670
	Net sales	34.53	7.36	120.11	112.47			274.470
2005	Sales	257.67	50.86	49.84	68.01			426.380
	Redemption	264.54	38.44	11.68	23.61			338.270
	Net sales	-18.87	12.42	38.16	44.4			76.110

Source: The Romanian Association of Asset Managers

This table shows once again the popularity of equity UCITS funds as well as balanced funds in the period ex ante crisis. Investors portray here a risk-taking behavior, which immediately changed into despair when stock market prices dropped into the abyss, so they switched their investments to money market and bond funds. In May 2011 money market funds have reached net sales of 95.338 million RON, while balanced and equity continue to have small to even negative net sales. Striking in these results are the numbers for net sales in 2009 and 2010, when money market funds registered an all time high that overtakes by far the net sales of equity funds before the crisis: 1.304,23 million RON in 2009 and 1.042,543 million RON in 2010.

4. A Special Fund: Proprietatea Fund

4.1 A Brief History of Proprietatea Fund

The special property of this fund comes from the purpose of its creation. Its purpose relates to the confiscation of property by the communist state. Romania has the special statute of being the only Eastern European country where a solution for the restitution of the confiscated property at its actual value has been approached. It is very important to notice that this solution attempts restitution at its actual value of the property that has been confiscated by the communist state. And the name to this solution is Proprietatea Fund. Why a fund as a solution? The problems that existed with the restitution process had two dimensions. On the one hand there would be the legislative framework with respect to the juridical regime which applies to nationalized real estates and on the other hand, the cases where restitution in kind is not available. At the same time an efficient and rapid to implement solution that would offer fair compensations was needed. The solution was called S.C. Fondul Proprietatea S.A. and this fund would deliver the necessary financial resources in order to indemnify people that were victims of abusive expropriation by the communist regime. The compensation works the following way: real estates that cannot be returned in kind are evaluated and their actual value is given back in shares. To put it simpler: shares were granted proportionate to the suffered loss. After fulfilling the necessary stages imposed by law, titleholders of the rights regarding compensation become shareholders in this special fund: Proprietatea Fund. (Fondul Proprietatea, Company Information, 2011)

The Romanian Government created Proprietatea Fund in December 2005. The funds' activity is under strict law regulation and presents a high level of interest for the public authorities in Romania, as well as for the media and nonetheless its shareholders. Regarding the restitution process, this task is completely independent of the funds' activity. The National Agency for Property Restitution is in charge of this process and this specialized legal entity is part of the central administration. (Fondul Proprietatea, Company Information, 2011)

As of 31st of December 2010, ex ante listing of the fund at the Bucharest Stock Exchange, the shareholding structure of Proprietatea Fund was as follows: the Romanian Government held 38,9% of the shares, private individuals 41% and the rest of approximately 20% were

corporate holdings. (Fondul Proprietatea, Shareholding Structure, 2010) In case of new eligible claimants, the Romanian Government indemnifies these by reallocation of their shares to the claimants. The number of shares that is being transferred to them depends on the value of the compensation securities, which they are entitled to. The intention is for the Romanian Government to only remain a minority shareholder of the fund with time. It is very important to understand that Proprietatea Fund represents a joint stock company controlled by the general assembly of shareholders and not a governmental institution. (Fondul Proprietatea, Company Information, 2011)

4.1.1 Eligible People for Shareholders in Proprietatea Fund

All natural persons that already had been equivalently compensated for the loss of property during communism or will be indemnified in the future as subject to the following laws have the right to become shareholders in Proprietatea Fund. A listing of the relevant laws to this subject is the following:

- (a) **Law no. 10/2001** with respect to the juridical regime regarding some of the real estates that were part of the abusive expropriation between the 6th of March 1945 and the 22nd of December 1989, reissued, including also the ones related to the claims that regard the enforcement of **Art. 32 within Law 10/2001**;
- (b) **Urgency Governmental Ordinance No. 94/2000** which handles the retrocession of some real estates that were belongings of Romanian religious cults, including modifications and completions;
- (c) **Urgency Governmental Ordinance No. 83/1999** concerned with the retrocession of some real estates that were property of communities of national minorities in Romania, including modifications and completions;
- (d) **Law of the real estate fund No. 18/1991**, new issuance including any subsequent modifications and completions;
- (e) **Law no. 1/2000** regarding restitution of the property right with respect to agricultural fields and forestry surfaces.

Proprietatea Fund was admitted by legal procedure to the listing on the Bucharest Stock Exchange as of the 25th of January 2011. As a consequence to this, titleholders of this fund are

free to trade their shares on regulated markets. Efficacious compensation of previous owners of nationalized real estates is accomplished through the capitalization of shares, which can work either through selling them or through collecting annual dividends earned through the funds' activity. (Fondul Proprietatea, Company Information, 2011)

4.2 Shareholding and Portfolio Structure

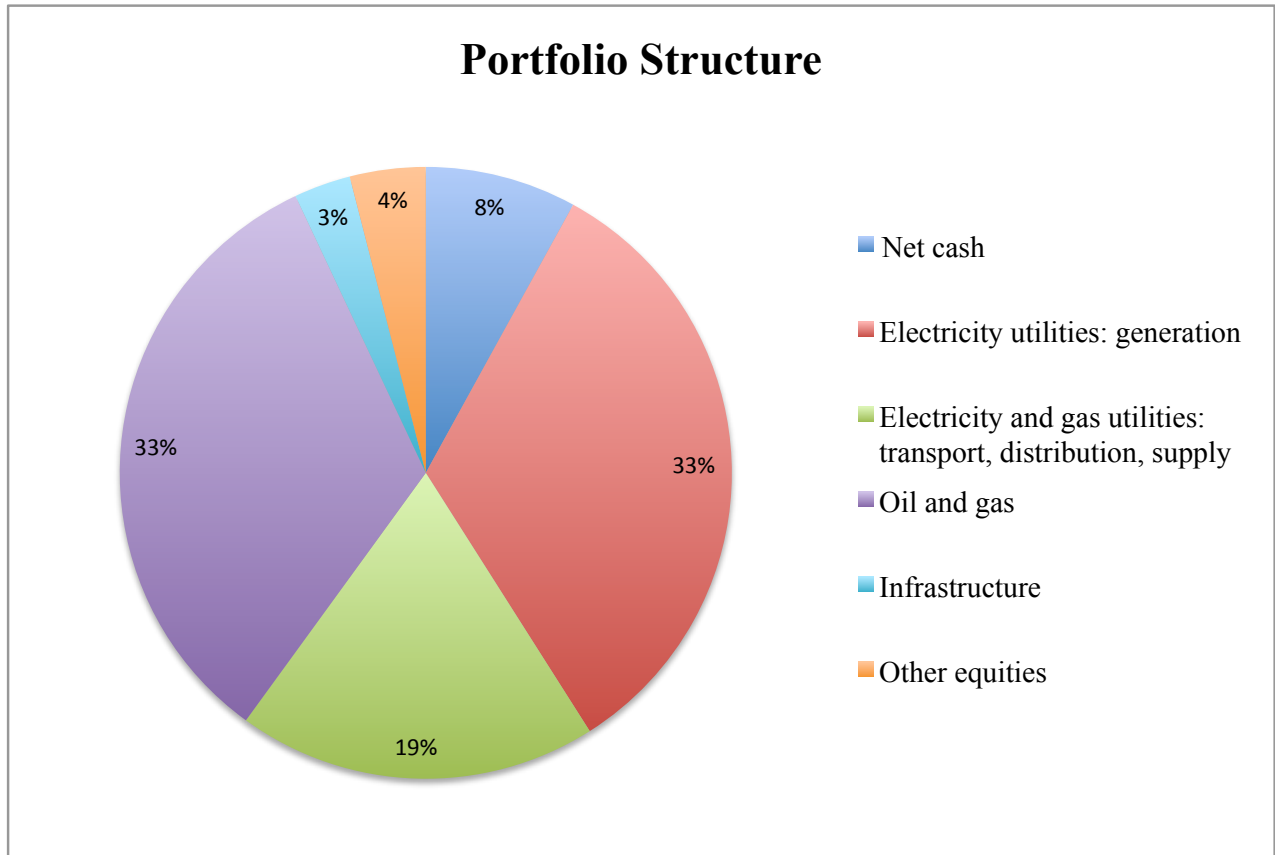
The shareholding structure of this fund looks as of 30th of June 2011 as shown in the table below.

Table 6: Shareholding Structure of Proprietatea Fund

Shareholder Type	Share of Capital
Ministry of Finance	18,90%
Romanian private individuals	37,02%
Foreign institutional shareholders	27,33%
Foreign private individuals	8,69%
Romanian institutional shareholders	7,91%

Source: Fondul Proprietatea, Shareholding Structure (2011)

As observable from this table, the Romanian Government's share of capital has dropped from the initially mentioned 38,8% which were held by the 31st of December 2010 to 18,90% at the end of June 2011, mainly due to the listing of the fund on the Bucharest Stock Exchange.

Figure 12: Portfolio Structure: Breakdown by investment type

Source: Fondul Proprietatea, Presentation for Investors, 2011

As one can see the great majority of investments of this special fund are targeted upon energy markets, a profitable and at the same time low risk industry sector. Another relevant aspect to present is the fact that 35% of the investments is located in listed shares, while the other 65% are in unlisted shares. Stocks of OMV Petrom represent 77% of all the funds' investment in listed shares. From the unlisted companies that make up the portfolio of the fund, the main one is Hidroelectrica with 36%. So, one may conclude that the part of the portfolio invested in listed shares is very poorly diversified as well as the portfolio as a whole, as 85% of the portfolio investment is located in the energy sector. Another important aspect to notice about Proprietatea Fund is that its portfolio bares a lot of country risk, as all investments are targeted on Romanian companies or foreign companies with important investments in Romania (e.g. OMV Petrom, Erste Group AG). (Fondul Proprietatea, Reports prepared by the Fund's Manager as of December 2010)

The Proprietatea Fund presents a desirable portfolio, having holdings in important companies of the energy sector, which are valued at approximately EUR 3,6 billions. By listing the fund

on the Bucharest Stock Exchange, the new issuer has expectations of greatly enhancing the liquidity of the stock exchange and improving its capitalization by approximately 30%. One of the reasons why the multiple initiatives of the Romanian Government to list the Proprietatea Fund on the Bucharest Stock Exchange (BSE) materialized just lately, was the nomination of a manager for the administration of its assets. This has been delayed until the fall of 2009, when Franklin Templeton Investment Management Limited has been appointed in the management function of this fund for an annual payment of EUR 13 millions. (BURSA, 2011)

4.3 Evolution of the Share Price

Apparently there were many recipients of shares in this fund that decided not to wait until its listing and sold their shares on the so called “grey” market. It happened that this deal was sometimes even at a 90% discount regarding the face value of the share. The trend followed by the Bucharest Stock Exchange in the past three years also characterized the development of the Proprietatea Fund share price on the “unofficial market”. This fund was also victim of the financial crisis and registered a sharp fall in 2008, reaching by the end of the year 0,1 lei/share compared to the maximum value of 0,6 - 0,7 lei/share it amounted to in the middle of 2007 on the “grey” market. In 2009, a recovery was observed as it has registered a high of 0,3 lei/share. At the end of 2009, Proprietatea Fund shares were valued by the “grey” market at 0,23 – 0,24 lei/share, immediately after the delay of signing the management contract with Franklin Templeton Investment Management Limited. From the beginning of 2010 the price of the stock has been rising to stand at 0,64 lei before its listing. After the listing it continued to drop until it went below 0,5 lei/share in June 2011 and recovered slightly (just a bit above 0,5 lei/share) by August 2011. The evolution of the share price since its listing on the BVB is visible in the picture below.

**Figure 13: Evolution of the Proprietatea Fund Share Price
(in Romanian Lei)**



Source: Bucharest Stock Exchange

Proprietatea Fund is to be found on the Bucharest Stock Exchange under the symbol FP. Market makers provide an improved liquidity as well as efficiency of the fund. On 25th of January 2011, the day of the listing of the fund, it traded with no fluctuation limit and was allowed since then a fluctuation of 15% up or down daily. (Bursa, 2011)

Interesting to analyze next is the fund's net asset value and net asset value per share. The table below shows the fund's net asset value. This net asset value (NAV) is calculated in accordance with the relevant regulations of the Romanian National Securities Commission (CNVM). With the beginning of the 30th of November 2010, the net asset value calculation has changed in accordance with the adjustments regarding the CNVM Regulation 4/2010 that has been introduced by the Disposal of Measures No. 17/ 25.11.2010. This new regulation represents a significant change in the NAV calculation:

- Listed securities as well as money market instruments are to be valued at exchange closing prices in contrast to the situation before when they were valued at a 90-day weighted average price.
- Valuation of unlisted shares is possible in two ways: either making use of the

shareholder's equity from the latest financial statements (discount depending on the holding regarding the issuer is not allowed anymore) or by using fair value principles, valuation methods in compliance with International Valuation Standards (Fondul Proprietatea, Net Asset Value, 2011)

Table 7: Proprietatea Fund - Net Asset Value

Date	Number of Shares	Total NAV (RON millions)	NAV / Share (RON)	NAV Growth
30 June 2011	13.756.955.963	16.171,20	1,1754	-1,38%
31 May 2011	13.756.955.963	16.398,08	1,1919	-0,86%
30 April 2011	13.778.392.208	16.539,87	1,2004	0,51%
31 March 2011	13.778.392.208	16.455,19	1,1942	2,15%
28 February 2011	13.778.392.208	16.109,35	1,1691	2,99%
31 January 2011	13.778.392.208	15.641,32	1,1352	2,04%
31 December 2010	13.778.392.208	15.328,17	1,1124	-3,61%
30 November 2010	13.778.392.208	15.901,86	1,1541	17,86%
31 October 2010	13.778.392.208	13.491,90	0,9792	0,71%
30 September 2010	13.778.392.208	13.396,92	0,9723	

Source: Fondul Proprietatea, Net Asset Value (2011), NAV Growth calculated

As illustrated in the table above, in May 2011 a reduction of shares of the Proprietatea Fund has taken place, more exactly 21.436.245 shares were taken out from the market. This represents a reduction of 0,16% in the number of shares on the market. A reason behind this could be the fund buying back its shares.

If observing the net asset value growth rates, the total net asset value of the fund has increased significantly (by 17,86%) during November 2010, this most probably due to the change in the regulation of CNVM regarding valuation of assets. Negative growths have been realized during December 2010, shortly before the listing of the fund on the Bucharest Stock Exchange and, during May and June 2011, after the number of shares issued had been reduced. Another interesting aspect here is to observe the net asset value per share in comparison to the price of the share (until the listing on the "grey" market and after on the BVB). What one may certainly conclude from this comparative analysis is that Proprietatea Fund shares seem to be undervalued, as their real value (price) lies under the book value. The striking aspect here is the fact that its real value lies at about 50% of its book value, which expresses a very strong undervaluation. This could be the case for several reasons. For example investors could overestimate the risk of the fund's portfolio, may underestimate its growth opportunities and so on and so forth.

4.4 A Second Listing for Proprietatea Fund?

The management company of the fund, Franklin Templeton Investment Management Limited, gives serious thought to a second listing of the fund on the Warsaw Stock Exchange (WSE), which should already take place in the first quarter of 2012. The benefits that such a listing would bring with itself are thought to be as follows:

- First, the Proprietatea Fund will gain in popularity among institutional investors from the international scene. Of special interest would be here the ones specialized in investment funds with a long - term focus, for example the ones specialized in pension funds.
- Second, international investors will be granted easier access to the fund, especially the ones who are not currently investing in Romania. This will then lead to a higher demand of the fund's shares and inevitably to a higher price/share.
- And third, the research coverage of the fund will broaden through more international brokers analyzing the subject. For this secondary listing up to 10% of the fund's existing shares are considered as offering.

When starting to consider this important step, many international markets were being taken into account, but only three of them were eventually named. This includes Vienna, Warsaw and London. The final decision called for a listing on the Warsaw Stock Exchange after prolonged analysis and interactions on the topic with both institutional investors as well as investment banks. It was considered that the listing on this stock exchange would benefit most on a long-term basis the shareholders of the fund. The main reasons for this decision portray the fact that the Warsaw Stock Exchange has grown to be a major European locus for some of the most important companies of the region, having realized a market record regarding the number of international firms listed in 2010. The total value of IPOs (initial public offerings) amounting to USD 99 billion by the end of 2010 is expected to grow even further in 2011. The principal market of the Warsaw Stock Exchange contains 417 listed firms and the Proprietatea Fund would occupy, by its present market capitalization of USD 2,5 billion, a frontal position (top 15). This would offer the fund a much better visibility than this would be possible on the London Stock Exchange (LSE). On the LSE, the Proprietatea Fund would not

enjoy such a high popularity, as more than 2.000 companies there show similar or even larger market value than our fund of interest. On the other hand, the Vienna Stock Exchange listing was probably eliminated as an option due to a lower market capitalization than the Warsaw Stock Exchange. This would mean that through a listing on the Warsaw Stock Exchange comparative to Vienna Stock Exchange, a larger pool of investors could be attracted.

A secondary listing on the WSE would possibly also represent an index inclusion due to the size of the fund. An inclusion in the stock exchange index is a solid proof of the importance of the fund on the WSE. The LSE, on the other hand, would not offer this opportunity, since an inclusion in the FTSE indices would require a change in domicile of the fund from Romania to the United Kingdom. This would then represent further challenges. (Press Release on the Fund Manager recommendation regarding the secondary listing for Fondul Proprietatea, 2011)

Furthermore, the listing on the LSE as well as the listing on the WSE would address a similar investor pool on an international scale, but it would certainly miss the substantial Polish demand from part of the local domestic investors. Pension funds in Poland have grown significantly, the assets currently managed have grown past USD 80 billion and an important fact here is that restrictions regarding investments of pension funds will allow more purchasing of equity in the future. Another factor speaking for the listing on the WSE and against the listing on the LSE is the cost of admission together with the annual fees. These costs are much lower in Warsaw than in London. First, admission fees are between RON 15.000 and RON 107.000 for the WSE versus up to RON 1,4 million for the LSE. Second, the gap between the annual fees is also large: In Warsaw these fees are between RON 9.500 and RON 74.000, while London charges between RON 16.500 and RON 188.000.

On the Warsaw Stock Exchange the Proprietatea Fund would have the advantage of playing a main role, which it wouldn't be able to profit from in more accomplished markets. In addition to this, the fund would also gain from the active ontogenesis of the WSE. As already presented before, investments of the fund orbit around Romanian equities and through a listing on the WSE, the fund would gain in importance for investors that have an interest in the region. And these kinds of investors are currently focusing on Warsaw, which represents a Central and Eastern European financial focal point. In the last couple of years the Warsaw market has known sophisticated development and has grown in depth, since the moment

specialized brokers and institutional investors apprehended the importance of the opportunities that the Polish market offers occupying a regional leading position. Given this significant evolution of the market, regulations also had to keep up with its rhythm of change, so both reporting standards and corporate governance standards that the WSE enforces are in line with the best international practices. Through all the aspects mentioned so far, the Warsaw Stock Exchange would present the optimal conditions for the Proprietatea Fund to achieve its goals of getting access to an important pool of international investors interested in the Central and Eastern European region.

The proposal of the listing would be discussed with the shareholders on October 2011, when the final decision is going to be taken and enacted. The shareholders' as well as the nominees' approval will be needed for both this second listing of the fund on the Warsaw Stock Exchange and for the investment bank that will eventually sponsor this second listing. But meanwhile, the management of the fund tries to increase its popularity both within the borders of Romania and abroad among institutional and retail investors. The Proprietatea Fund represents significant long-term opportunities through its solid portfolio and important future perspectives. (Press Release on the Fund Manager recommendation regarding the secondary listing for Fondul Proprietatea, 2011)

4.5 Body of Nominees

The table below presents the body of nominees of the Proprietatea Fund as of 27th of April 2011. Simply put: these are the people that have an important say in the fund's strategical decisions.

Table 8: Nominees of Proprietatea Fund

Body of Nominees		Recommended by
Bogdan Drăgoi	Chairman	Ministry of Public Finance
Cristian Bușu	Member	Ministry of Public Finance
Doru Petru Dudas	Member	Ministry of Public Finance
Simion-Dorin Rusu	Member	Ministry of Public Finance
Sorin Mîndrutescu	Member	Wood and Company

Source: Fondul Proprietatea, Body of Nominees (2011)

As observable, four out of five from the body of nominees are closely linked to the political scene and more, always to the party in power. The only one exception here, where the link with the political side is at least not obvious, is the member recommended by Wood and Company, a leading investment bank with focus on emerging markets in Europe. In addition the chairman of the body of nominees had been recommended by the Ministry of Finance, which clearly illustrates a political control over the evolution of the fund. The Ministry of Finance is still an important shareholder in the Proprietatea Fund, but this shareholding part is likely to shrink soon, since a second listing of the fund is planned on the Warsaw Stock Exchange and there is also the possibility for additional cases in the restitution process. Through the nomination of the majority of members, including the chairman as authority body of the Proprietatea Fund, the Romanian Government keeps its interests under control. So, does in the end economics rule this fund, or is it politics? Is the financial industry in Romania that strongly related to politics, or does it follow true economics?

4.6 The International Scene

Observing now the international scene, the communist regimes everywhere have deprived people of their properties, both real and personal, without offering any compensation or recourse. Restitution of property only became possible once communism had collapsed (1989 – 1991). Many former Iron Curtain countries worked towards enacting legislation in order to provide private as well as communal property restitution. Communal property refers to property that has previously belonged to religious organizations or other type of organizations. This communal property category would include churches, parochial schools, synagogues, medical facilities and other.

Once democracy has set in, the rule of law had to reaffirm itself and the former communist countries were striving for integration in Western economic and political organizations. Their desire for integration in the European Community gave them the necessary incentive to correct injustices that have previously taken place. The way they have approached this, was either by returning the nationalized properties or by offering monetary compensation instead.

The United States was heavily involved in supporting rightful restitution of property that has been confiscated by the former communist governments in Central and Eastern Europe. Countries that were interested to join NATO (North Atlantic Treaty Organization) were judged by their action regarding property issues, in order to determine their level of progress. This is also of relevance for countries aspiring to membership in the EU (European Union).

The reaffirmation and effectiveness of the rule of law is being stressed through positive property restitution action and is a necessary characteristic of a democracy. A healthy, well-functioning market economy requires property laws that are both effective and non-discriminating. (U.S. Department of State)

5. Does the Political Scene influence Investment Funds?

In this last part of the paper, a regression analysis is being conducted in order to test if there exists a connection between elections (both general and presidential) and the net assets of investment funds. First, a short analysis of the elections in Romania after 1989 is presented to further try to observe the effects of these elections on the financial industry.

5.1 The Romanian Political Sphere: Elections after 1989

Romania's first free elections took place on the 20th of May 1990, when the winning party was the National Salvation Front (FSN) and its elected president was Ion Iliescu. The party's representation in parliament was high, reaching 66,6%. This day remained in the countries' history and memory as "The Sunday of the Blind". On this day the highest voting rate has been achieved in Romania, 86%, probably never to be seen again. Without any adversary, Ion Iliescu, the president to be elected, won with a majority of votes (85%). Whether this was or not a moral fraud, is an issue for others to debate. The next elections, also general, took place in Romania in 1992. Ion Iliescu was reelected as president in 1992, although this time only in the second tour. In only two years from the previous elections he lost approximately five million votes. This time the voting rate was 76%, and although it decreased compared to the elections in 1990, it was still very high. The winning party now was the Socialist Democrat Party of Romania (PDSR) and it had a much weaker representation in parliament than the FSN at last elections, of only 34%. (Economics and Finance, 2009)

Ion Iliescu ruled until the next elections in 1996, when a change in ideology and of the governing parties marked the general elections. The democratic left was replaced by a middle-right coalition and the fact that it managed to rule for four years meant an important thing. On the one hand, it signified that the political regime had the capacity to assure diversification and on the other hand it showed its capacity to fix society's stability as a whole, given the harsh crisis conditions due to the economic restructuring. The party winning the 1996 elections was the Democratic Convention of Romania (CDR) and the elected president was Emil Constantinescu. These elections also registered a high voting rate: 76%. The representation of the ruling party in the parliament was this time only 30,7%. In the year 2000 general elections in Romania ended by reelecting Ion Iliescu, as candidate of the Social Democrat Party for his third presidential mandate. This party had a parliament representation

of a little more than previously, 36,6%. The voting rate this time decreased to 65% and the reason why Ion Iliescu has been reelected was that the right extreme had received a dangerous number of votes in the first tour, which allowed it to enter the second election tour. (Economics and Finance, 2009) This second election tour was the battle between the right extreme and the democratic left. The civil society moved as a whole against extremism and this is why Ion Iliescu received more support in the second election tour, including both opinion leaders and civil society, people that just yesterday were anti Ion Iliescu. In this case the mobilizing vector of the electorate was the strong and effective concentration of the democratic forces against the prevailing danger of a return to dictatorship. (Florian, 2010)

In 2004 legislative and presidential elections took place that brought into power the alliance Justice and Truth PNL – PD (National Liberal Party – Democrat Party). Traian Basescu, still president of Romania today, was first elected in 2004. The voting rate decreased further and reached this time 58%. (Economics and Finance, 2009) The year 2004, as well as 2009, has brought a new situation in the political sphere. The change consisted in the fact that the one elected president was the one determining the majority of parliament. Since no party was represented by absolute majority in parliament, the president would have the obligation to consult the parties of the parliament in order to nominate the prime minister. The five years to come until the next elections were characterized by economic growth that was mainly based on consumption, but this had offered the possibility of better financial resources and enabled the increase of salaries. In 2009, only presidential elections have been conducted. Traian Basescu, as candidate of the Democrat Liberal Party, was reelected for his second mandate. 2009 was the first time when the presidential elections were independent of the legislative ones. Here once again, the president was in charge of determining the majority in parliament and a new government. The economic crisis, which Romania was not managing to administrate for already one year did not influence the vote. What tried to avoid another election of Traian Basescu, was the political movement of an important social and political segment that was militating against Traian Basescu's campaign. As it appears it managed to have declined the balance of elections, as Traian Basescu only won by 50,33% of the votes. (Florian, 2010)

The presidential elections of 2009 were the sixth electoral cycle for the designation of the president in Romania in the democratic political regime that Romania had celebrated with the revolution in December 1989. After 20 years one can observe some social statistic

characteristics regarding the political system of transition towards a modern capitalist society. (Florian, 2010)

5.2 Regression Analysis

In order to evaluate if there exists a connection between changes in government or presidential elections and changes in the asset level of investment funds, I made use of the regression analysis tool. The method chosen here is multiple OLS (ordinary least squares) regression.

In the following regression analysis three explanatory variables have been used: two control variables such as GDP growth rate and unemployment rate, and the variable of interest: an election year dummy that takes a value of one in case of change of government or presidential elections and a value of zero otherwise. Due to preliminary studies inflation has not been taken as a control variable anymore, as it didn't present any significant results. Preliminary studies also showed insignificant results for the regression with Non-UCITS funds, which is why this analysis has also been left out. The purpose of the following regressions is to find out if there is a connection between elections (given here by the election year variable) and first, the net assets of UCITS funds and second, the assets under management (total). So, the analysis includes six different regressions: first three, where the dependent variable is the net asset value of UCITS funds and the last three, where the dependent variable are the assets under management (total). There are three regressions for each, due to the fact that for each regression one more independent variable is added. We start with one independent variable and end with three of them. The null hypothesis (H_0) for these regressions is that there is no connection between elections and first, the level net assets of UCITS funds and second, the total assets under management.

The data for these regressions were taken from the International Monetary Fund (GDP, inflation, unemployment), the European Fund and Asset Management Association (assets under management) and the Association of Fund Administrators in Romania (net asset value of UCITS funds and net asset value of Non-UCITS funds). The GDP growth rate is calculated based on the GDP data collected from the International Monetary Fund. As mentioned before,

due to preliminary studies, inflation, as an independent variable, has been taken out as well as the net assets of Non-UCITS funds, as a dependent variable.

The first set of regressions verifies the existence of a connection between the net assets of UCITS funds and presidential elections/change of government. It approaches this problem in three different steps: first, the only independent variable is the election year dummy, second, the unemployment rate variable is added, and third, the GDP growth rate variable is added to the other two. This way, one can observe if the results of the regression analysis improve by the adding of more variables, which would mean a better explanation for a certain behavior of the level of net assets of UCITS funds by more factors.

Table 9: Regression 1

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0,023899357
R Square	0,000571179
Adjusted R Square	-0,076307961
Standard Error	1599,61637
Observations	15

<i>ANOVA</i>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	19010,59025	19010,59	0,0074296	0,932624864
Residual	13	33264042,9	2558772,5		
Total	14	33283053,49			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	816,3088182	482,3024825	1,6925246	0,1143592	-225,6423459	1858,259982	-225,6423459	1858,259982
Election year	80,50393182	933,9747413	0,086195	0,9326249	-1937,225821	2098,233685	-1937,225821	2098,233685

Table 10: Regression 2

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0,231899029
R Square	0,05377716
Adjusted R Square	-0,10392665
Standard Error	1620,009913
Observations	15

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	2	1789868,082	894934	0,341001	0,717729112
Residual	12	31493185,41	2624432		
Total	14	33283053,49			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	1997,527649	1518,684766	1,315301	0,212987	-1311,4022	5306,457498	-1311,4022	5306,457498
Election year	126,8207654	947,5611074	0,133839	0,895748	-1937,73753	2191,379061	-1937,73753	2191,379061
Unemployment	-157,467214	191,6973055	-0,82144	0,427416	-575,1397618	260,2053344	-575,139762	260,2053344

Table 11: Regression 3

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0,516374058
R Square	0,266642167
Adjusted R Square	0,066635486
Standard Error	1489,612151
Observations	15

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	3	8874665,518	2958221,84	1,333166298	0,313469881
Residual	11	24408387,97	2218944,36		
Total	14	33283053,49			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	1991,066092	1396,447546	1,42580801	0,181679565	-1082,494231	5064,62641	-1082,4942	5064,626415
Election year	-87,6605095	879,5192874	-0,09966866	0,92240063	-2023,469408	1848,14839	-2023,4694	1848,148389
Unemployment	-33,87097576	189,3529854	-0,17887743	0,861286021	-450,6340864	382,892135	-450,63409	382,8921348
GDP growth rate	-2445,943118	1368,849938	-1,78685994	0,101515302	-5458,761515	566,875279	-5458,7615	566,875279

From this first set of three regressions, one can observe that the multiple R improves over the three regressions to come from 2,3% to 51%, which represents a decent correlation between the dependent variable and the explanatory ones. The adjusted R square, which derives from the attempt to correct the original R square for degrees of freedom, has an evolution from -7%, to -10%, and to finally reach 6,6% in the third regression. The reason why the adjusted R square has improved over the three regressions is that variables have been added that improve the model fit. A negative value for the adjusted R square (first and second regression) is an

indicator for a bad regression. This would mean that the explanatory power of the independent variables is so small that the correction used in adjusting the original R square turns it into a negative value, which was only possible because the original R square was already very small. One can observe an improvement from first to last regression, which shows that the GDP growth rate has added to the goodness of model fit, while the other two variables had very little explanatory power. An adjusted R square of 0,066 means that 6,6% of the variation of the dependent variable around its mean is explained by the three regressors (explanatory variables) found in the last regression. The standard error of the regression refers to the estimated standard deviation of the error term. (Cameron, 2009)

The ANOVA, representing the analysis of variance, divides the sum of squares into the two types of components: on the one hand the residual (error) sum of squares and on the other hand the regression (explained) sum of squares. (Cameron, 2009) This explains how the equation of the regression accounts for variability in the dependent variable. (Verbeek, 2004) The F-test represents a test for the regression's equation statistical significance. F is being calculated by dividing the explained variance by the unexplained one. (Cameron, 2009)

Coefficients measure the expected change in the dependent variable with a change of one unit of the explanatory variable relevant for that coefficient, but important to stress, the other explanatory variables do not change. This condition is known as the *ceteris paribus* condition and in a multiple regression model, which is the present case, when interpreting single coefficients this can only be made under the *ceteris paribus* condition. (Verbeek, 2004)

So, as observable from the first regression, the election event variable exhibits a positive correlation with our dependent variable, net assets of UCITS funds. In the second regression, the correlation between the political event and the dependent variable gets stronger and the unemployment rate shows a negative correlation with the level of UCITS funds assets. Interestingly, the third regression changes the correlation of the political event to our dependent variable from positive to negative, while the other two explanatory variables, unemployment rate and GDP growth rate, also portray negative correlations to the variable of interest. The GDP growth rate exhibits a very strong negative correlation to the net assets of UCITS funds. Again, I stress once more, the effects of the single explanatory variables are only on the dependent one, with all the others kept constant.

Could this negative correlation between presidential election/change of government taking place and the net asset value of UCITS funds show that people have little trust in the new government? Do they quit the hope for an important change in the system?

At the 5% level (value of alpha), the null hypothesis is not being rejected since the t-value for the election year variable is in all three regressions lower than 1,96. The probability value (p-value) denotes the minimum size for which rejection of the null hypothesis would take place. The p-value also shows the decision's sensitivity for rejection of the null hypothesis regarding the significance level choice. (Verbeek, 2004) In the present case the p-values for the election year variable, 0,93, 089 and 0,92, indicate in all three cases, that the null hypothesis is not rejected at the 5% significance level.

In the second three-step regression analysis, we are going to look at the behavior of total assets under management when presidential elections/change of government take place. We try to find if the political scene influences the level of assets under management and for this purpose I made use of three different regressions. First, once again, the regression runs between the assets under management and the political event variable exclusively. Second, the unemployment rate variable is added as in the previous case and third, the GDP growth rate variable is further added. The scope is to see if the model fit improves by adding more variables.

Table 12: Regression 4

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0,07536872
R Square	0,005680444
Adjusted R Square	-0,160039482
Standard Error	475,1906343
Observations	8

<i>ANOVA</i>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	7740,041667	7740,04167	0,034277375	0,859217897
Residual	6	1354836,833	225806,139		
Total	7	1362576,875			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	348,1666667	193,9957641	1,79471273	0,122848613	-126,5238666	822,8572	-126,523867	822,8572
Election year	71,83333333	387,9915282	0,1851415	0,859217897	-877,5477332	1021,2144	-877,547733	1021,2144

Table 13: Regression 5

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0,344125241
R Square	0,118422182
Adjusted R Square	-0,234208946
Standard Error	490,1464167
Observations	8

<i>ANOVA</i>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	2	161359,3261	80679,66306	0,33582453	0,729712248
Residual	5	1201217,549	240243,5098		
Total	7	1362576,875			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	-297,4099572	831,7579688	-0,35756791	0,7352647	-2435,511883	1840,691968	-2435,51188	1840,691968
Election year	-6,979494635	412,1606201	-0,01693392	0,98714428	-1066,472098	1052,513108	-1066,4721	1052,513108
Unemployment	111,6592604	139,6360998	0,799644652	0,46020207	-247,2867612	470,605282	-247,286761	470,605282

Table 14: Regression 6

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0,900335287
R Square	0,81060363
Adjusted R Square	0,668556352
Standard Error	254,0015325
Observations	8

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	3	1104509,761	368169,92	5,70657632	0,062848465
Residual	4	258067,1141	64516,779		
Total	7	1362576,875			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	592,6834659	489,8798821	1,2098547	0,29294343	-767,4411349	1952,80807	-767,4411349	1952,808067
Election year	-250,9560767	222,916307	-1,125786	0,32323038	-869,8709662	367,958813	-869,8709662	367,9588127
Unemployment	70,79710383	73,14656779	0,9678801	0,38791325	-132,2903263	273,884534	-132,2903263	273,8845339
GDP growth rate	-3455,644804	903,8054348	-3,823439	0,01872302	-5965,01098	-946,27863	-5965,01098	-946,278629

The second set of regressions shows that the multiple R registers a very significant improvement over the three regressions to come from 7% to 90%, which represents a very good correlation between the dependent variable and the explanatory ones. The adjusted R square exhibits also a spectacular evolution from -16%, to -23%, to finally reach 66% in the last regression. In the first two regressions the adjusted R square has exhibited negative values, which explains that the independent variables present here, have little explanatory power over the dependent one. The third regression, on the other hand, as in the previous set of regressions, exhibits a relatively high adjusted R square. This means that the GDP growth rate has contributed significantly to the goodness of model fit. The 0,66 value of the adjusted R square from the last regression, represents that 66% of the variation of the dependent variable around its mean is explained by the three regressors.

Like the previous set of regressions, the first one here also gives a positive correlation between the assets under management and the political elections event. In the second regression, one observes a negative correlation of the dependent variable with the election year variable, but a positive one with the unemployment rate. Third, the negative correlation to the election year variable is maintained, also the positive one to the unemployment rate and in addition to this, one can also see a very strong negative correlation (once again) to the GDP growth rate.

At the value of alpha of 5%, the null hypothesis cannot be rejected here, since the t-value for the election year variable is in all three regressions lower than 1,96. The p-value (probability value), which denotes the minimum size for which rejection of the null hypothesis would happen, starts with a value of 0,82 for the election year variable, to exhibit an even higher value in the second regression (0,98) and to improve by the last regression with a value of 0,32 closer to 0,05. As observed, none of the regressions allows for the rejection of the null hypothesis at the 5% level. The inability of rejecting the null hypothesis means that a connection between the level of total assets under management and presidential elections/change of government could not have been proven. A weak point in these regressions was also the few number of observations.

As observed in the last regression of the second set, the regression has delivered statistically significant results for the connection between the level of assets under management and the GDP growth rate. The statistically significant results for the GDP growth rate are argued by the p-value of 0,018, which is lower than the 0,05, the value of alpha. Due to these results, I have decided to run a regression between the assets under management and the GDP growth rate exclusively. The results of this regression are presented below.

Table 15: Regression 7

SUMMARY OUTPUT

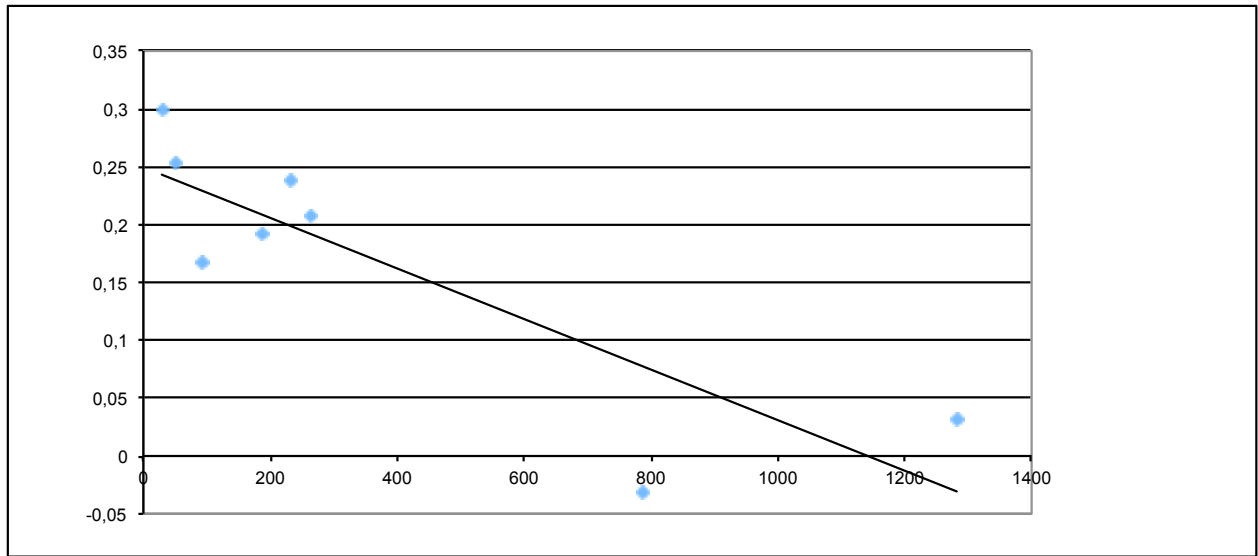
<i>Regression Statistics</i>	
Multiple R	0,849878256
R Square	0,72229305
Adjusted R Square	0,676008559
Standard Error	251,129803
Observations	8

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	984179,8074	984179,8074	15,605509	0,007534349
Residual	6	378397,0676	63066,17793		
Total	7	1362576,875			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	926,3821831	167,3236443	5,536469079	0,00146435	516,9559756	1335,80839	516,955976	1335,808391
X Variable 1	-3305,884645	836,8521304	-3,95038087	0,00753435	-5353,588037	-1258,1813	-5353,58804	-1258,18125

For a better visual understanding of the relation between the assets under management and the GDP growth rate, the scatter plot below illustrates the regression between the two variables.

Figure 14: Scatter plot of regression 7

The assets under management are represented here in million EUR on the x-axis and the GDP growth rate is represented on the y-axis.

The independent variable in regression nr. 7, is, as already mentioned before, the GDP growth rate. The 0,84 value for R represents an 84% correlation between the level of assets under management and the GDP growth rate. The adjusted R square also exhibits a relatively high value, 0,67, which means that 67% of the variation of the dependent variable around its mean is explained by the regressor (GDP growth rate). The connection between the dependent variable here (assets under management) and the independent one (GDP growth rate) is highly statistically significant due to the p-value of 0,007, much lower than the value of alpha, 0,05.

The correlation between the level of assets under management and the GDP growth rate is strongly negative. Now, what could this mean: a fall in GDP growth rate causing an increase in the level of assets under management? It most probably leads to a variable that has an influence over both assets under management and GDP growth rate. The best explanation here would be the presence of the time variable. GDP growth slowed down over time and became probably even negative, while the amount of assets under management was growing, given the fact that Romania is an emerging market economy. Due to the conclusion driven here, a further regression was thought of, that between the GDP growth rate and time.

Table 16: Regression 8

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0,79098019
R Square	0,62564966
Adjusted R Square	0,56325794
Standard Error	0,07495714
Observations	8

ANOVA

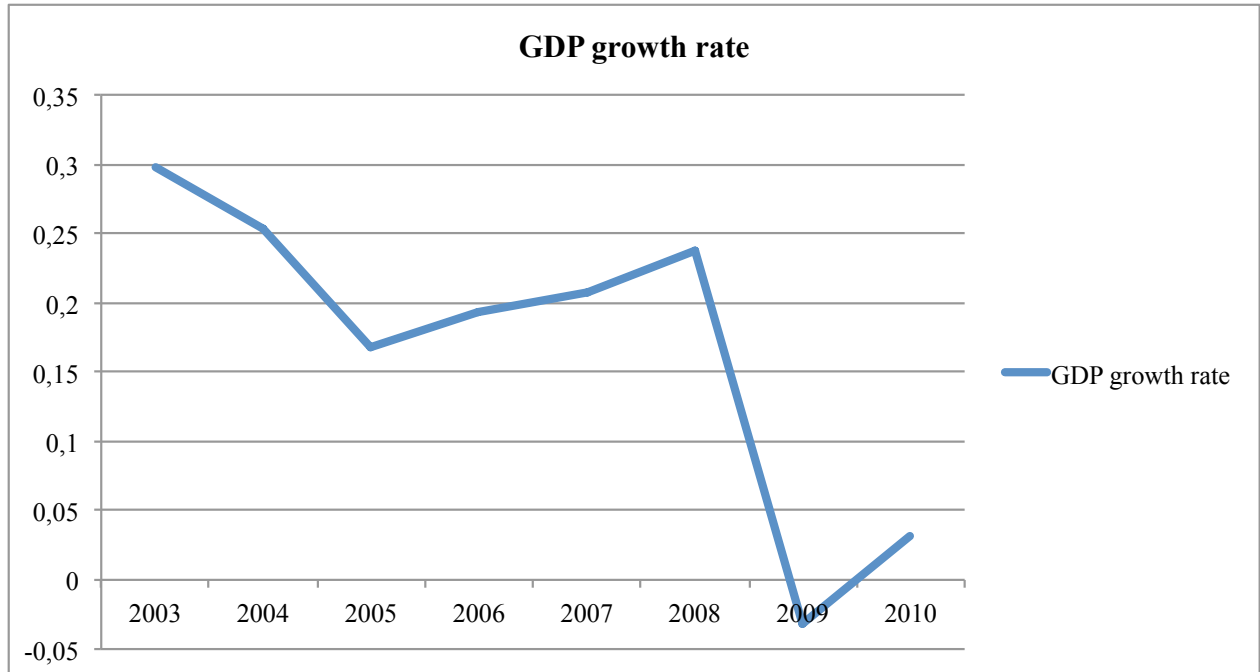
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0,056341743	0,056342	10,02777	0,019400513
Residual	6	0,033711439	0,005619		
Total	7	0,090053181			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	73,6597112	23,20747118	3,173965	0,019222	16,87307505	130,446347	16,873075	130,4463474
X Variable 1	-0,03662608	0,011566138	-3,16666	0,019401	-0,0649274	-0,0083248	-0,0649274	-0,00832476

The independent variable in the regression nr. 8 is time and we can observe here a good correlation between the GDP growth rate and time (79% - multiple R). The adjusted R square with a value of 0,56 shows the fact that 56% of the variation of the dependent variable around its mean is explained by time (the regressor here). The correlation between the two factors is negative, which explains what was a presumption before, that the GDP growth rate has slowed down over time. With a p-value of 0,01, lower than the level of alpha, 0,05, these results are statistically significant.

The following visual representation is the GDP growth evolution over the time frame for which data for assets under management (total) were available. From the picture below, one can observe that the GDP growth rate has decreased over the last 8 years.

Figure 15: Evolution of GDP growth rate



Although no statistically significant results were obtained to prove a connection between presidential elections/change of government and the level of assets under management (both UCITS and total) in any of the above regression analysis, one could still observe interesting correlations. I believe this would offer some space for open questions, like: Does the negative relation between the two variables of interest (last regression in the first and second set) suppose people's disappointment with elections or does it shelter possible extractions of money/funds due to electoral campaigns? Further questions that I challenge the reader to think about and to maybe take them as provocative ideas for future examination are the following: Could it be that inflows of money target those investment funds that invest in the "right" companies? And by "right" companies I mean those connected with the members of the political party in power. Does this lead to the question of corruption? And then I allow myself to ask, how free is in fact the market economy in Romania? Is it "freer" for some than for others?

If there is manipulation of funds due to corruption, then how much is the political scene in reality related to the economic growth or better said to the development of some companies and not of others? Is economic efficiency the most important matter for the growth of a

company or are there other factors, like political ones? How far has Romania gone West since 1990? And how much of a free market economy has it really become?

Are we heading in the right direction? How does the future of the Romanian economy look like, but more interesting for us, how will the investment fund industry in Romania look like? Mr. Dragos Neacsu, the president of the Romanian Association of Fund Administrators and CEO of Erste Asset Management Romania (Member of Erste Group Bank), mentioned in one interview that the investment fund industry in Romania is at the point where it targets the required critical mass to achieve playing a major role in the financing process of the real economy. He added that the investment fund industry has much gained in importance due to the fact that the Treasury uses the domestic market to finance budget deficits. This is an important binomial that should be consolidated in up to five years time and developed in order to achieve growth of both volume and quality. He observes that the important step here is heading towards a zone of added value where the job of the money managers is to bring both present and future investors to the conviction not just to save, but to regularly invest. The creation of a solid investment culture is needed.

A very interesting point mentioned in this interview is the aspect of “*entrepreneurial initiative*”, as he calls it. As to this he makes a beautiful remark: “*We lack a lot the entrepreneurship, which has not been cultivated as a state policy. Unfortunately, those who have been the forerunners of the Romanian entrepreneurship left the country in those troubled 90’s, and now we only have a few of them. Still, I believe that we have the entrepreneurial spirit in our genes, and it just lacks the context to develop.*” (Interview with Mr. Dragos Neacsu, 2010)

6. Conclusion

If the paper started with many questions, it should probably end with many answers. But how am I to give these answers?

The story started in the 1990s, after the bloody revolution that killed communism in Romania to end in our present days. The story traveled over two decades and focused on Romania's economic transformation and development, more precisely on the financial industry. This paper has tried to present what democratization and privatization meant in Romania, it observed how this has gradually taken place and how in this privatization process some were more favored than others. The privatization process was closely related to the political stage and the protagonists in this privatization process were former supporters of the communist party.

It has taken some time for people to truly understand the concept of private ownership and not expect their well being to come from the state. To completely change mentalities took almost two generations, time in which some people were melancholic when thinking about the past. But the metamorphosis has already taken place and they had to adjust and try to understand how the new system was functioning. As presented in this paper, Romania had to face crisis until it managed to stabilize its economy and started to bring it closer to Western standards. An emerging economy, with many privatizations taking place, Romania looked appealing to foreign investors, which eventually had important participation in the growth of Romania's economy, also due to technological development, what post-communist countries were absolutely lacking. The focus here was the development of the banking system, through acquisitions of important Romanian banks by foreign companies and the creation by these of asset management companies, which helped develop the investment fund industry. How educated investments are being done in Romania still remains an open question, but as shown in this research this industry has been developing significantly. As observed in this paper, compared to other post-communist countries, Romania still has a lot to catch up, but this can just mean that it has lots of growth potential. This is also how the strong foreign direct investment in the past couple of years can be explained.

This thesis has tried to assess Romania's economic development in comparison with other Eastern European countries and developed Western economies, as well as trace the evolution and history of its investment fund industry. The interesting question that it has asked here was the existence of a connection between presidential elections/change of government and the level of assets under management. Although it couldn't prove the existence of such a connection, it showed some important correlations that could open further challenging questions.

So let us end this research by trying to give an answer to the critical question: Did Romania go West since 1990? And if so, how much did it move west? Romania certainly did progress in this direction, it went through important restructuring, but it's still lacking transparency in many aspects. It is true that it has implemented Western values, but it has implemented them given certain constraints of the time. The analysis of the investment fund industry points out important growth and progress, as well as much development potential for the future. One can observe that Romania is heading West, but it still has a long way to go until it can catch up with developed economies and even with developing post communist countries like Hungary, Poland, Czech Republic and Slovakia. A good proof for Romania moving westwards was also the entering of the European Union, although now it has problems entering Schengen. How much of a free market economy Romania has become and if it is sometimes "freer" for some than for others, will remain an open question.

Proposal for Further Research

First, I would like to stress the fact that it would be highly interesting to try to assess Romania's orientation after Western values as a whole and compare this to other post-communist countries. It would also be highly appealing to see why some post-communist countries developed quicker than others. What were the factors playing a vital role in this process? Did adaptation take place at a faster pace? Was the reason behind this a longer capitalist education?

But coming back to the main topic of this paper, I would recommend further research in the direction of the companies the investment funds target their investments at, who exactly manages the funds and who manages and owns the companies the investment funds are interested in. Are these people connected to the political scene? And if so, are decisions based on economic efficiency or are they corrupt?

In addition to this it would also be challenging to look at each year with presidential elections/change of government in particular and analyze how the level of assets of investment funds were affected as well as their decisions. This might lead to positive or negative correlation between the level of assets under management and the hope, or the loss of hope, for a certain party to win elections. One can observe, which candidate parties influence the level of assets under management positively, and which negatively, if influencing at all. Quantifying such an influence could be of high interest in the field of behavioral economics/finance.

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Interview

Interview with Mr. Dragos Neacsu, CEO of Erste Asset Management Romania (Member of Erste Group Bank), October 2010

Appendix

Abstract

A journey through Romania's recent economic history with a focus on the development of the investment fund industry and its supposed connection with the political scene is the story and the purpose of this thesis. The reason why I chose this topic is my heritage as well as my interest for the investment fund industry due to my study and my work.

The introduction presents the scene of the end of communism and what this transformation meant for the society. Second, it takes the reader through the democratization and privatization process, banking system development as well as the birth of asset management companies. Third, it illustrates the role of asset management companies and the growth of the investment fund industry, which signals important economic development for Romania. Romania is being compared here with other Eastern European countries as well as Western economies. Fourth, it focuses on a special fund, Proprietatea Fund that was created with the purpose of the restitution of property that was taken away by the communist state. Fifth, the challenging question of a connection between political events like presidential elections/change of government and the level of assets under management is being assessed. And last, a conclusion is being drawn regarding the researched topics of this paper and leaving the open question of how West Romania went since the bloody revolution of 1989 as well as how much of a free market economy it has become.

Kurzfassung

Eine Reise durch die junge wirtschaftliche Geschichte Rumäniens mit einem Schwerpunkt auf der Entwicklung der Fondsindustrie und ihres vermeintlichen Zusammenhanges mit der politischen Szene ist das Werk und Ziel dieser These. Der Grund, warum ich dieses Thema gewählt habe, ist mein Erbgut sowie mein Interesse für die Fondsindustrie aufgrund meines Studiums und meiner Arbeit.

Die Einführung präsentiert die Szene vom Ende des Kommunismus und was diese Transformation für die Gesellschaft bedeutete. Zweitens, führt es den Leser durch den Prozess der Demokratisierung und Privatisierung, durch die Entwicklung des Bankensystems sowie durch die Geburt von Asset Management-Gesellschaften. Drittens, zeigt es die Rolle der Asset Management-Gesellschaften und das Wachstum der Fondsbranche, die eine wichtige wirtschaftliche Entwicklung für Rumänien signalisiert. Rumänien wird hier mit anderen osteuropäischen Ländern verglichen, sowie mit westlichen Volkswirtschaften. Viertens, konzentriert sich die Arbeit auf einen speziellen Fond, Proprietatea Fond, der mit dem Zweck der Rückgabe von Eigentum, das von dem kommunistischen Staat aufgenommen wurde, erstellt wurde. Fünftens, die herausfordernde Frage nach einem Zusammenhang zwischen politischen Ereignissen wie Präsidentschaftswahlen/Wechsel der Regierung und der Höhe der verwalteten Vermögen wird geprüft. Letztens, eine Schlussfolgerung wird gezogen bezüglich der recherchierten Themen dieser Arbeit und folgenden offenen Fragen: wie weit westlich ist Rumänien seit der blutigen Revolution von 1989 gegangen und wie viel von einer freien Marktwirtschaft ist es geworden.

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- 11.2010 – 11.2011 Trainee bei **ERSTE ASSET MANAGEMENT (Member of ERSTE GROUP BANK)** in Wien, **Abteilung Strategy, Finance and Subsidiaries** bis 1.7.2011, danach **Abteilung Finance and Human Resources**
Tätigkeiten:
- Forschung zu makroökonomischen Indikatoren und der Entwicklungen des Fondsmarktes; Prognosen bezüglich der Entwicklung des Investmentfondsmarkt, Pensionsfondsmarkt und Versicherungsfondsmarkt in CEE, SEE und CIS Ländern.
 - Beurteilung der Auswirkung der Finanzkrise auf die Präferenzen der Investoren im Investmentfondsmarkt.

- Teilnahme an drei Human Resources Projekten: (i) Die Synchronisierung der Struktur zwischen der Erste Asset Management und ihren Tochtergesellschaften, (ii) Die Weiterentwicklung der Mitarbeiterdatenbank (Österreich & CEE) und (iii) die Entwicklung eines High Potentials Programms innerhalb von Erste Asset Management.
- Übersetzung von Dienstanweisungen vom Deutschen ins Englische
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- Überprüfung des Jahresabschlusses.

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Praktikum bei **ERSTE ASSET MANAGEMENT (Member of ERSTE GROUP BANK)** in Wien,
Abteilungen: Rechnungswesen (1 Monat), **Strategy, Finance and Subsidiaries** (1 Monat) mit Jobrotation in verschiedene Abteilungen: Fondsmanagement (Equities, Fixed Income), Private Banking, Recht.

09.2007:

Praktikum bei Takata Petri, Arad, Rumänien
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EXTRAKURRIKULARE TÄTIGKEITEN:

09.2011:

Sommeruniversität Prag
Fakultät für Sozialwissenschaften, **Charles Universität** in Prag
Thema: *“East goes west – West goes east? Searching for a new European order after 1990”*

03.2008 – 6.2009:

Aktives Mitglied von **Student Intelligence (SI)** in Wien
Zwei meiner Projekte:

- Organisation von MBA Road Shows in Rumänien.
- Vertretung von SI bei Vorträgen an Schulen und Universitäten in Arad, Rumänien.

Student Intelligence ist ein studentischer Verein mit Sitz in Wien.

09.2005 – 08.2006:

Teilnahme an **Interact Club** in Arad, Rumänien (danach passives Mitglied vom **Rotaract Club**)

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Arbeit im Dienste der Gemeinde beim Naturhistorischen Museum in Martinsville, Virginia, USA

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PREISE:

2008:

Silbermedaille bei einem Rotary Weltschiwettbewerb organisiert in Colfosco Corvara, Italien

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4-ter Platz bei einem regionalen Geographiewettbewerb

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2-ter Platz bei einem Mathematikwettbewerb in Virginia, USA

2005:	Zertifikat für Mitglied der Honor Society für besondere akademische Leistungen während des Austauschjahres
2005:	Zertifikat für International Baccalaureate in Theater und Künste
2004:	Silbermedaille bei einem Rotary Weltschiwettbewerb organisiert in Madesimo, Italien
2004:	3-ter Platz bei einem regionalen Chemiewettbewerb

SPRACHKENNTNISSE:

Englisch:	verhandlungssicher Cambridge, TOEFL und SAT Zertifikate
Deutsch:	verhandlungssicher DSD – Diplom, Deutschzertifikat
Französisch:	Grundkenntnisse
Spanisch:	Wirtschaftskommunikationskenntnisse
Rumänisch:	Muttersprache

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Programmierkenntnisse:	Grundwissen von JavaScript, HTML, SQL, Visual Basic

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Teamwork:	In verschiedenen Projekten auf der Universität, am Arbeitsplatz und in studentischen Vereinen habe ich in einem Team gearbeitet und hatte dadurch die Möglichkeit diese Fähigkeiten weiterzuentwickeln.
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ANDERE:

Hobbies:	Schifahren, Lesen, Belletristik, Reisen, Kartenspiele (Bridge, Whist, Rentz), Tanzen und Kunst.
Führerschein:	B
Familienstand:	ledig

Interview

with Mr. Dragoş Neacşu,
CEO of Erste Asset Management



“Our clients understood that a mutual fund can be a good and reliable tool for their current micromanagement.”

“When most of the foreign investors decided to run away from Romanian risk, considering it to be extremely high, we used that moment of panic to include in our portfolio some very attractive assets, thus managing to offer consistent returns to our investors.”

Q: The mutual fund industry is one of the industries which, while other markets were falling dramatically, had a positive evolution. How can this trend be explained?

We had a lot of work to do in this period, on several areas. Starting 2007 year-end, the major challenge for our industry was to get out of the area of savings characterized by very short time horizons, between one and three months. At that moment, that was our main problem. The challenge was to determine our clients to prioritize their needs, to think differently, in several layers of time, so as to allow us to offer them products to meet these needs. That was an extraordinarily difficult task, and it continues to be even now. I can say that, from this point of view, we have not exceeded too much this “zero point”. Most probably, we are still in the first or just entering the second stage in a very long way to go. From the mutual fund industry point of view, what we have managed in the last few years was to promote the monetary and bond funds as interesting alternatives to the popular bank deposits, with the basic idea that a professional manager can better manage the undertaken risk when using a single institution to place your money. For a regular individual that looks for a financial institution to deposit his money, having access to too many (and sometimes contradictory) sources of financial information can be very confusing, making it difficult to decide whether an institution is risky or not, especially during this prolonged recession.

In this general context, the major theme for us, starting 2008, was to regain the investors’ confidence. Then, we had to try to differentiate them and to explain the differences to the general public.

The mutual funds are not only money market funds, which are easily understood if explained properly. Given that the monetary fund is a product which addresses the short term savings needs, usually 3-6 months, it is generally used to put some money aside for specific events, short-term and predictable needs and everybody, regardless of training and income level, can use it. One step forward, we tell our clients that, if they have some extra-resources, beyond the planned outputs, and search for something to protect them against inflation and depreciation, then we exit the traditional savings area and enter the investments one. That’s the stage we are now in, explaining these differences and trying to mobilize resources in this direction. I cannot say we passed this stage, but we are already here - we have managed to convey this kind of message to a part of our clients, there is also some loyalty developed in time from these clients and, last, but not least, there is an extension of their investment horizon.

At the same time, we witness an evolution in the profile of the customers that come to us. Three years ago, we started with a customer base consisting primarily in individuals between 55-65

years, at pre- or full retirement age. They were our first “fan club”, our first loyal group of investors. Things evolved, and we now see more and more customers with an average age of 35-45, mainly professionals and entrepreneurs from urban and even rural areas. We are interested in rejuvenating our customer base - an evolution that would allow us to talk about longer time horizon investments and various investment needs.

Q: There are critics saying that the growth of the mutual funds came mainly on the account of important transfers of customers from banks in the sale financial groups. Is this true?

I don’t quite agree. It is true that, in order to build a retail dimension for the mutual funds in Romania, the support of the sales force within the large network banks was crucial, but it is a very simplistic view that the customers were “transferred” from term deposits towards fund units. Since the development of financial intermediation in Romania, it has been an evolutionary process and it has not been administratively enforced, but rather obtained with a lot of efforts in training these sales forces and having extensive discussions with customers to inform them about the new product offerings, including promotional activities. If we focus on the year 2010 alone, more than half of the new money inflows into our funds came from other bank accounts, money that did not exist in BCR before, and, even more important, a significant part came from outside the banking system. From my point of view, this is an important victory, signalling that we’re heading in the right direction, which is attracting more and more of the unbanked cash into savings and investments products.

Q: You mentioned the need of “rejuvenation” and expanding your customer base; where could these new customers come from, given that the whole population experiences a decrease of the saving power and also high levels of uncertainty and fear?

Undoubtedly, we experienced these kinds of developments and attitudes from our public not only now, but for a long time. Being so close to the money circuit, we felt the crisis since 2008, when we saw it coming over very strong and fast, in spite of the soothing assurances coming from the politicians. For some customers, it took a long time and involved usage of emotional intelligence to reach the stage where we could discuss in more detail again. From this point of view, the fact that we now see more and more amounts coming from entrepreneurs, from young people, young professionals, students, even schools that are investing for some periods their money for the winter fire-wood, is a very positive signal. Some have understood that, in fact, a mutual fund can be a good and reliable tool for their

current micro-management. I dream of the day when we will have become important institutional investors on this market and speed up its growing pattern – and I am sure this day will come soon – but until then, the evolution of those who understand they can use our products as user-friendly tools to plan for some specific investment targets is as important.

For example, there are companies that have come to rethink their current asset portfolios – they had, let's say, a piece of land they didn't really need, they found a buyer, sold that asset and saved the money in one of our funds in order to pay the dividends later. We are part of this investment circuit. We see more and more situations of this kind, which, altogether, give you the right perspective to grasp the next stages and become increasingly involved in the investment cycle within the real economy.

Regarding our activity at Erste Asset Management, we have not been adversely affected by the "hysteria" of the bad news because, when the crisis started, we positioned ourselves in a stability zone. We came with a calibrated offer in the protection area. "It's a tough winter, we can offer you a warehouse where you can put the grains for the next spring in a warm and protected environment" – that was our original message, and it proved correct. Most importantly, we proved that, over time, we kept our promise and, while offering our clients the needed protection, we also managed to make good use of market opportunities. When many foreign investors decided to run away from Romanian risk, considering it too high to stay put, we used that moment of panic to include in our portfolio some very attractive assets, thus managing to offer consistent returns to our investors. All in all, I'd like to say that we got to have our own more and more diversified "fan club", and it's a good thing that it rejuvenates, moreover that things evolve, the assets grow, and so does the number of investors. I am proud to say that, before year-end, the number of investors in our funds will most probably reach 100,000 individuals, which is not only a "psychological threshold", but indeed an important milestone for mutual fund penetration in Romania.

Q: How do you see the short and medium term future? Which are the challenges and the opportunities for the industry?

The fact that there are so many individuals out there that took all sorts of FCY loans without proper collateral coverage and basic understanding of currency risk management will certainly leave a long lasting mark on their financial behaviour. The lessons learned should help us in the future, because I believe we can offer our clients some answers to their needs for planning, which go beyond their short term needs or objectives. We try to get our costumers a medium and long term frame of mind when it comes to investments, because, if there is any disposable income that would allow for an investment, they will have to deal with certain concerns, in order for this to materialize. This will be the major challenge for us in the next period. Another important challenge for the industry as we speak is to convey to the clients the portfolio concept – the fact that one shouldn't put everything that is available for saving from the disposable income in one single place, but think in terms of a product portfolio.

These are the main two challenges that should be addressed in parallel, because the concept of a portfolio can only exist in a multiannual investment cycle. Otherwise, one cannot build the necessary balance between expectations, outcomes, and outputs. It is an ongoing process that will probably take some years, and which is even more difficult when it takes place against a background with so many unnecessary storms as we witness. On such a background, with all sorts of anxieties and rapid changes, the type of products that sell are the ones with low risk and stability as main features, but it is important to take a step forward, towards an added value zone where we, the money managers, must convince the present and the future investors not only to save, but also to regularly invest.

Q: In any sound economy, the mutual funds have an important role in the redistribution of resources. What is the situation in Romania?

Some years ago, I used to have a phrase that entered the industry's folklore, saying that "we cannot fill a capital market's stadium yet." Now one could argue that we don't have a stadium large enough to accommodate all investors. We are at the point where we target the necessary critical mass in order to play a major role in financing the real economy. We have already become increasingly important for the way that the Treasury finances the budget deficits from the domestic market. In my opinion, this is a very important binomial,

Dragoş Neacşu's opinion on...

... challenges and opportunities for the mutual funds industry: Trying to get our costumers a medium and long term frame of mind when it comes to investments and to convey the idea of a portfolio are two of the most important challenges that should be addressed. It is an on-going process that will probably take years, and which is even more difficult when it takes place against a background with so many and unnecessary storms as we witness.

... mutual funds' role in financing the economy: We are at the point where we target the necessary critical mass in order to play a major role in financing the real economy. We have already become increasingly important for the way that the Treasury finances the budget deficits from the domestic market. In my opinion, this is a very important binomial, which needs to be consolidated in the next 3-5 years. It is important to develop a relationship that can grow in the future, both in terms of volume and, even more so, in terms of quality.

... entrepreneurial initiative: We lack a lot the entrepreneurship, which has not been cultivated as a state policy. Unfortunately, those who have been the forerunners of the Romanian entrepreneurship left the country in those troubled 90's, and now we only have a few of them. Still, I believe that we have the entrepreneurial spirit in our genes, and it just lacks the context to develop.

"It is important to take a step forward, towards an added value zone where, we, the money managers, must convince the present and the future investors not only to save, but also to regularly invest."

which needs to be consolidated in the next 3-5 years. It is important to develop a relationship that can grow in the future, both in terms of volume and, even more so, in terms of quality. It is not possible to build an efficient and predictable financing of the public deficit in the absence of a real dialogue, of a constant and consistent public policy enacted by the Treasury, in which it is able to announce a medium-term financing strategy, and the participants in the market – that is us, the institutional buyers – to know that we trust the issuer, that he knows what he is doing and what is financing (multiannual government budgeting). Our common objective now should be to get out of the vicious circle we are in and to enter a virtuous one, built on trust and mutual respect.

For us it's extremely important to have this kind of relationship, in order to be able to offer our investors those differentiation messages on different time horizons; we cannot do this irrespective of what happens in the dialogue with the public institutions, especially with those that have a connection with the deficit's creation. If those who produce the deficit would have a more predictable behaviour, a major problem would be eliminated.

I believe that, despite the bleak landscape of the crisis, we are already in the process of building a critical mass of institutional investors, who can play an important role in the restructuring of the Romanian economy. Who are they? I would mention here the private pension funds and the mutual funds, especially those with a medium and long term investment horizon. Together, these new players will be able to play an important role in financing development projects, coming from companies with a major impact on a national scale, and this might happen, I think, even in 2011.

Q: Staying in the same area, why do you think it is just now, in late 2010, that we can talk about this kind of implication of the institutional investors in the real economy?

To answer this question, we must go back in time, because the problem has deep roots in the past. If things had been different in the 1996-2000 period, and we had done things differently, the crisis would have found us with a very different financial market structure and we would have passed much easier this period. It's a sad story in the regional context, because in other countries things developed in a totally different manner. In '96-'98, the starting point was the same for us and almost everybody else in the region. We could have been in a much better situation now and we could have had another critical mass and a different story – because it's a huge difference to speak about a mutual fund industry of EUR 1 bn or about one of EUR 15 bn, about a private pension industry of EUR 1 bn or about one of EUR 10, 20 or even 30 bn.

In Poland, our eternal reference, we can talk about a private pension industry that is a significant shareholder of the most important listed companies, those that form the WIG 20 index.

There, the pension funds hold together between 20% and 25% of each of these companies. This money is invested in the real economy and this, in turn, offers a new and truly functional level of corporate governance.

I would have liked that ten years ago we had not had 15,000 specialists, but 10,000 treasurers and CFOs in the Romanian private and public companies. With 10,000 CFOs, I think the market would have looked different now. To a large extent, this is the root of the problem, because, beyond the complaints vis-à-vis of the political act, the "original sin" comes from the private sector at its inception, during the "wild capitalism" period in the 90's. We didn't have, at the switch from one millennium to another, a private sector settled on solid base. Starting from there, the politicians were able to intervene, because they had very strong connections with a small group of circles, interests and so on. They fed each other, as we didn't have a sufficient degree of privatization – that should have been much higher, as the Polish did in the mid 90's. As they were reaching an 18%-20% unemployment rate, we were proud to have a 6-7% rate, while sending hundreds of thousands of people in their early fifties in early retirement waves related to voting cycles, but the price for this was that the Poles managed to unbind the entrepreneurial energies that people needed to reinvent, while we have continuously grown a dysfunctional socially assisted social model that bites back nowadays. They quickly seized the opportunity and decided to privatize everything that had to be privatized, and as a result they managed to start paying their large debts, while others were just beginning to build important deficits. That gave the Polish social corpus the opportunity to grow much faster.

The evolution of the Warsaw Stock Exchange, which is now the European leader in the IPOs market, could not have happened without this energy and entrepreneurial spirit. Many of these IPOs are a result of some family businesses started 10-15 years ago, that reached a certain maturity and at some point looked for financing through the capital market in order to expand, to overcome Poland's borders and gain a regional position or, simply, to exit. Poland is now redefining its role not only in terms of capital and financial markets dynamic, but also in terms of a regional and indeed a European player. For Romania, all of these are still to be done, and I continue to see it as an opportunity.

Q: You mentioned, as part of the problem, the lack of the entrepreneurial initiative, but how can this initiative arise in the current, not very encouraging, context?

We lack a lot the entrepreneurship, which has not been cultivated as a state policy. Unfortunately, those who have been the forerunners of the Romanian entrepreneurship left the country in those troubled 90's, and now we only have a few of them. Still, I believe that we have the entrepreneurial spirit in our genes, and it just lacks the context to develop. We are not some typical clerks, let's say, and an evidence of this is even

the fact that we don't have an elite officialdom – like we can see on other markets, especially in the Imperial area, where the idea of being in a public office position used to be and still is very valued. We do not have that. On the contrary, on the entrepreneurial side, I think we have some native qualities that were not capitalized enough, and here is a major challenge that we all have. Obviously, in order to develop, one also needs a proper space and condition – tax, easy access to financial services, infrastructure, cheap capital, flexible labor market, etc. But these are things we can do.

On the other hand, the development of this very important component will also have positive consequences on the entire Romanian society. Once there will be enough individuals that will leave the 1st and 2nd levels of Maslow's pyramid, they will begin to look up a bit, and then maybe they'll enter the area of social entrepreneurship. This will be a natural consequence of rediscovering Romania's entrepreneurial spirit, but also the needed impulse for this society to develop and improve.

“I believe that we have the entrepreneurial spirit in our genes, and it just lacks the context to develop.”

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