Dimić, M., Premović, T., & Marjanović, M. (2024). Development of investment funds in the Republic of Serbia, *SCIENCE International journal, 3*(2), 121-126.
doi: 10.35120/sciencej0302121d UDK: 336.714.052(497.11)"2007/2023"

DEVELOPMENT OF INVESTMENT FUNDS IN THE REPUBLIC OF SERBIA

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Abstract: The rapid development of the securities market laid the foundation for the development of investment funds, which were initially established in developed countries before later commencing operations in developing countries. The capital market and investment funds in the Republic of Serbia lag behind developed countries, so the impact of this sector on the development of the domestic economy is still not evident. The experiences of countries with developed financial market show that there is a decreasing market share for traditional intermediaries (such as banks) and as well growing trend in the representation of non-traditional intermediaries, primarily investment funds. However, in Central and Eastern European countries, the last two decades have been marked by increased interest from both experts and the scientific community in the operations of investment funds. Investment funds in the Republic of Serbia show potential after the Covid-19 pandemic, and the authors believe that their role in the domestic financial market is expected to improve in the future.

In contemporary market economies, investment funds are rapidly evolving and becoming new, authentic financial intermediaries. Considering that investment funds represent long-term savings, more attention should be paid to raising public awareness and improving the level of financial literacy among citizens regarding the significance of investment funds for economic development in the domestic capital market. Considering mentioned, the first investment funds in the Republic of Serbia emerged only in 2007 and that they are not adequately represented in domestic literature, the authors aim to contribute to filling this gap with this work. In this context, the aim of the paper is to present the chronology of the development of investment funds (number, investment units, net asset value and investment structure) in the Republic of Serbia from 2007 to 2023.

Keywords: investment funds, investors, capital market, securities, financial market, Republic of Serbia.
Field: Economics

1. INTRODUCTION

Investment funds represent specific institutions in the capital market. They are collective investment institutions that gather funds and then invest those collected funds in money deposits, stocks, bonds, notes, and other securities, i.e., in various types of assets. The management of investment funds is entrusted to an investment fund management company, which is a commercial company with the purpose of establishing, organizing, and managing the mentioned funds, all in accordance with legal regulations (Dimic et al., 2023).

Investment fund is an institution of joint venture funds that invests assets of the fund as financial assets through financial markets, and for the fund members it issues investment units that represent claims on the part of the fund assets. The fundamental concept of investment funds revolves around pooling resources from individual investors to realize the benefits of large-scale investing and cost-sharing advantages. In other words, the operation is based on gathering funds from small investors, leveraging economies of scale, concentration, and investing in highly diversified portfolios. The goal of investment funds is to reduce investment risk, achieve positive returns, enhance liquidity, and directly impact economic development.

By 2023, seventeen years after the adoption of the Investment Funds Law, it cannot be said that these funds have operated successfully in the Republic of Serbia. In practice, during this period, the investors' assets were lower than those they invested: the investment units had lower values than the initial ones. No investment fund had a positive value in the period in which it operates during economic crisis. Nevertheless, in last few years, the financial system began to approach European financial systems. By establishing investment funds, citizens are enabled to become portfolio shareholders of companies. However, it is very important to raise citizens' awareness of the importance and way of operating investment funds, since they represent a form of long-term savings.

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2. MATERIALS AND METHODS

The paper provides an overview of the development of investment funds in the Republic of Serbia from 2007 to 2023. The analysis covers key trends, challenges, and opportunities faced by investment funds during this period. Data from various sources are utilized to examine the growth of the investment fund industry, investor behavior, and the performance of different types of investment funds. The study aims to shed light on the evolution of the investment fund sector in the Republic of Serbia and its impact on the broader financial market and economy.

The paper conducts theoretical and empirical research using scientific methodology techniques. In theoretical terms, the authors explain key concepts and provide a comparative overview of the role of institutional investors in the capital market, primarily analyzing the role and significance of investment funds in Serbian capital market. The empirical analysis of the research is supported by contemporary literature, current research, and examples with the focus on Covid-19 and post Covid period.

The research task in the field of investment funds in the Republic of Serbia required the application of various methodological procedures, primarily based on desk research and the collection of primary and secondary data. In addition to scientific methods (analytical-synthetic, inductive-deductive, comparison-classification) to be used in the paper, tabular and graphical representations will be utilized to present summarized data that are the subject of analysis in this study.

The primary data source is the Securities Commission of the Republic of Serbia, which maintains records of registered investment funds and their activities. Secondary data from academic articles, reports, and other relevant publications are also utilized to supplement the analysis.

3. LITERATURE REVIEW

Experiences from countries with developed financial sectors illustrate a declining market share of traditional intermediaries (such as banks), with a rising trend of non-traditional intermediaries, primarily investment funds. Khorana et al. (2005) highlight that the presence of the investment fund sector is more pronounced in countries with well-defined legal regulations accompanied by a set of laws and regulations, higher levels of financial literacy among the population, higher gross domestic product per capita, lower transaction costs, and clearly defined investor protection. Over the past two decades, there has been increased interest from both experts and scholars in the operations of investment funds in Central and Eastern European countries. However, it should be noted that these financial market players have not yet received adequate attention in the literature, especially in transition countries, and the first empirical analyses in the Central and Eastern European region emerged at the beginning of the 21st century.

One of the recent studies conducted on the operations and representation of investment funds in European countries was carried out by author Filip (2017), who analyzed investment funds in Hungary, Poland, and the Czech Republic. Author concluded that there is no erosion effect on performance in these countries and that there is a slight positive relationship between asset size and returns of investment funds operating in these countries. Đekić et al. (2019) focus on the development of investment funds in the domestic capital market from 2013 to 2018 and conclude that there has been an increase in the total assets and net assets of investment funds, indicating a positive trend in their development. Additionally, the authors believe that the next period will be characterized by a trend of increasing investments in foreign investment funds, as well as the emergence of opportunities and space in the market for the establishment of domestic investment funds, which could have a positive impact on economic development.

When we mention investment funds, the first association is with collective investment institutions. As mentioned by Dekić (2011), these are institutions aimed at acquiring income and reducing investment risk by collecting funds and investing them in various forms of assets to achieve investment objectives. In other words, they are institutional investors who play a role in connecting issuers and investors in the financial market (Milanović, 2011).

Investment funds are also financial intermediaries. Author Jednak (2011) highlights that the role of investment funds as financial intermediaries is achieved by pooling funds from individual investors and later investing them in various forms of assets. Among other things, investment funds aim to create additional liquidity in the financial market and have a direct impact on economic development by collecting and putting small capital into function. In this context, Ivanisević (2008) notes that through the issuance and sale of investment fund shares, free capital is collected, which is then invested in the financial market. Investment funds are also analyzed in the literature as mechanisms of collective investment.

Milanović (2011) emphasizes the importance of the investment policy of operations and reminds us that potential investors will choose an investment fund based on defined criteria. Additionally, as Šoškić

(2021) states, when selecting an investment fund, the investor starts with the investment strategy of the specific fund, which must be in line with their interests. Korenak and Stakić (2021) remind us that after investing in a selected fund, the investor has no influence on the fund's investment strategy, meaning they have no direct impact. However, such influence can be indirect if many investors exit the fund, which will further affect the committee's decision-making regarding changes in the investment strategy (Muminović and Pavlović, 2006).

4. RESULTS

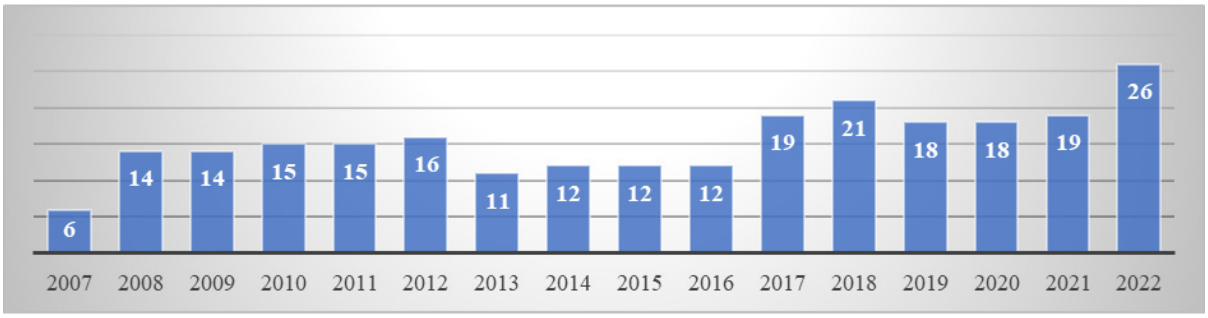
This chapter delves into analysis of the development of investment funds in the Republic of Serbia, spanning from 2007 to 2023. It primarily focuses on presenting the numerical status of investment funds and investment units during this extensive period, alongside examining changes net asset value and investment structure specifically from 2019 to 2023.

Consequently, investment funds represent a relatively new investment opportunity available over the last fifteen years. In the Republic of Serbia, investment funds are relatively new participants in the domestic financial market, present since 2007 when the first investment fund, Delta Plus, was established. By the end of 2007, there were 6 open-ended investment funds, with an average return rate of 14% per investment unit, an average investment unit value of 14 euros, and total assets nearing 60 million euros (Božović and Božović, 2012).

Market trends, primarily due to the impact of the global economic crisis, have shown that the public began to lose confidence in open-end investment funds as a new investment alternative, which can be seen through the constant decrease in the number of investment units, total asset value, and significant negative returns. The number of investment units decreased by 52% from 2007, and by the end of 2010, the Securities Commission registered 1.744.493 investment units of investment funds. The value of the average investment unit followed this trend, with its value at the end of 2010 being 618,45 dinars, representing a decrease of 44% compared to the value at the end of 2007 (Barjaktarević et al. 2014). Certain external factors, such as economic crises and regulatory changes, have influenced the trajectory of the industry, leading to fluctuations in the number of funds.

Data from the graph show that during the observed period from 2007 to the end of 2022, the number of investment funds in the domestic financial market initially stagnated in the period 2008-2012, followed by a decline in 2013. From 2017 there was a slight growth, and from 2018 to the end of 2022, a faster development and recovery of investment funds were evident in domestic financial market.

Graph 1. Number of investment funds in the Republic of Serbia

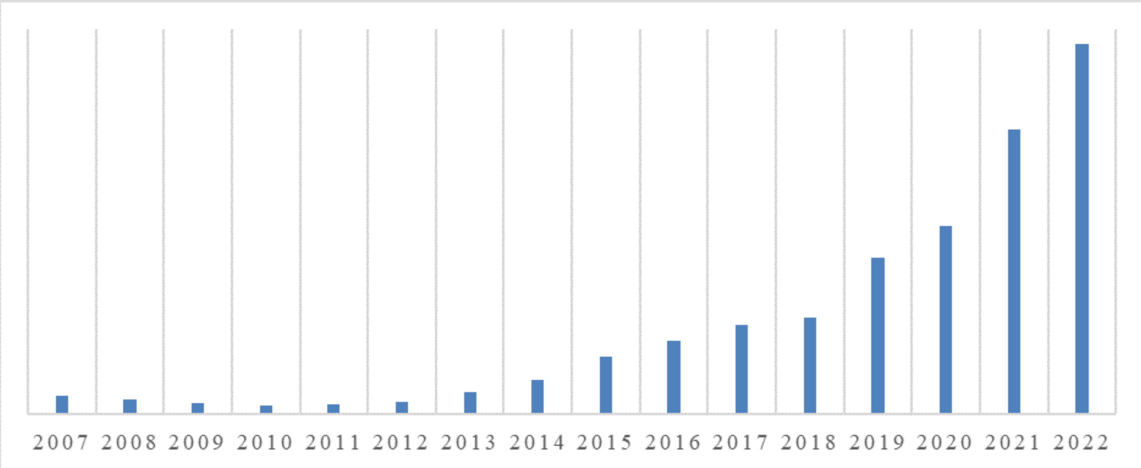


Source: Authors, Based on the available data from the website of the Securities Commission of the Republic of Serbia

At the end of 2022, there were a total of 26 investment funds managed by 6 management companies in the Republic of Serbia. Regarding the structure of investment funds there were mostly funds for asset preservation (8), followed by 6 balanced funds, 5 funds for asset growth, 4 income funds, 1 tracking fund, 1 closed-end alternative investment fund with legal entity status, and 1 open-end alternative investment fund with a public offering (Dimić et al., 2023).

The following graph illustrates the number of investment units of investment funds from 2019 to 2022. The significant increase in the number of investment units of investment funds was attributed to the formation of an adequate market environment and the adoption of the Capital Market Development Strategy for the period 2021-2026. This strategy highlights the necessity and support for initiatives aimed at developing investment funds in the domestic capital market. The following graph indicates a sharp and substantial increase in the number of investment units of investment funds in the capital market of the Republic of Serbia from 2018 to 2022.

Graph 2. The dynamics of the total number of investment units



Source: Authors, Based on the available data from the website of the Securities Commission of the Republic of Serbia

Upon analyzing the graphical representation, a discernible pattern emerges, indicating a notable fluctuation in the number of investment units throughout the observed period on the domestic market. Notably, during the global economic crisis, according with the inception of the initial investment funds, a discernible negative trend is evident, characterized by an average three-year decline of 22% in investment units. Following years witnessed a gradual recuperation in the capital market, culminating in nearly double the number of investment units in 2013 compared to 2012. It can be noted that since 2010, there has been a pronounced upward trend in the number of investment units, reaching approximately 76.851.557 by the end of 2022, nearly three times higher than the figure recorded in 2018 (Securities Commission of the Republic of Serbia, 2023).

The net asset value of investment funds in the capital market of the Republic of Serbia will be analyzed for the period from 2019 up to the third quarter of 2023 (Covid-19 and Post Covid period). The table below illustrates the net asset value of investment funds operating in the territory of the Republic of Serbia during the mentioned period.

Table 1. Net asset value of investment funds in the Republic of Serbia

Investment Funds	Net asset value				
	2019	2020	2021	2022	2023*
Money	38.503.947.838	45.233.374.351	68.379.703.914	54.772.151.303	78.814.228.772
Equity	385.158.976	562.862.727	914.507.783	1.150.425.322	2.555.027.410
Balanced	5.496.287.378	5.914.512.933	2.037.385.102	1.925.723.425	1.885.917.077
Income	/	4.279.422.369	6.144.837.489	4.761.070.737	4.592.999.624

**until the end of 3Q of 2023*

Source: Authors, Based on the available data from the website of the Securities Commission of the Republic of Serbia

The data from the table indicate the following conclusions regarding the total net asset value of investment funds:

1. In 2019, money market funds dominated, participating with 89%, while balanced funds accounted for 10%. Equity funds contributed only 1% to the total net asset value of investment funds.
2. In 2020, money market funds continued to dominate with 87%, while the share of

balanced and income funds was 12% and 7%, respectively. Equity funds also had minimal participation at 1%.

3. In 2021, money market funds remained dominant, contributing 88%, while the share of balanced funds was 3%. Income funds participated with 8%, and equity funds accounted for 1% of the total net asset value of investment funds.
4. In 2022, money market funds continued to dominate with 87%, while the share of balanced funds was 3%. Income funds participated with 8%, and equity funds accounted for 1% of the total net asset value of investment funds, while tracking funds contributed 0.1%.
5. By the end of the third quarter of 2023, money market funds had approximately 90% participation. They were followed by income funds with an average of 7%, balanced funds with around 5%, and equity funds with 2%.

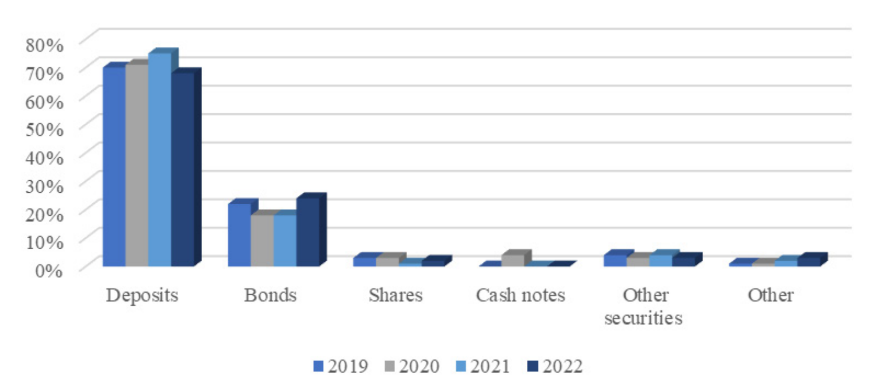
In 2019, the largest share of fees for investment funds in the Republic of Serbia was attributed to the management company, accounting for 96,80% of the total fees of investment funds in that year. The fees for the purchase and sale costs accounted for 1,60% of the fees, while the fees for investment companies constituted 0,30%. Fees to commercial banks represented 0,60% of the total fee value, while fees to the central registry accounted for 0,20%. Other purchase and sale costs had a share of 0,50%, and the fee to the market organizer amounted to 0,04% (Securities Commission of the Republic of Serbia, 2023).

The following graph illustrates the investment structure of investment funds from 2019 to 2022 according to types of financial instruments. The data indicates that investment funds allocated their assets as follows:

1. in the money market, into cash deposits (around 70%),
2. in debt securities, bonds (about 20%),
3. in equity securities, such as stocks, notes, and other financial instruments (approximately 3% each).

It should be noted that according to available data from the Securities Commission of the Republic of Serbia, investment in cash deposits by investment funds increased to 88% as of September 2023, while investment in bonds decreased to 12%. Additionally, it is notable that investment in cash deposits by funds represents entirely short-term bank deposits (100%).

Graph 3 Investment structure of investment funds in the Republic of Serbia



Source: Authors, Based on the available data from the website of the Securities Commission of the Republic of Serbia

When it comes to the structure of investment funds' investments based on trading location, during the analyzed period, the trading ratio was 90%:10% in favor of trading on the domestic market.

5. CONCLUSIONS

The establishment and development of investment funds represent an essential aspect of the financial market in any country, including Serbia. Investment funds play a significant role in mobilizing savings, channeling investments into various asset classes, and contributing to capital market development. Understanding the trends and dynamics of the investment fund market is crucial for policymakers, investors, and other stakeholders in making informed decisions and fostering a conducive environment for financial market growth. Investment funds aim to acquire income and reduce risk by collecting funds, which are then invested in various forms of assets, thereby achieving investment objectives. Therefore, they are institutional investors who have the role of connecting issuers and investors in the financial market. In addition to insurance companies and pension funds, investment funds belong to non-banking and non-deposit institutions, relatively young non-deposit, and non-banking institutions in the Republic of Serbia.

To ensure the long-term development of investment funds in the Republic of Serbia, it is very important to improve the supply of financial instruments and increase their diversification. However, in recent years, there has been a noticeable shift and development of these financial institutions in the context of achieving better business results and increasing the number of "players" in the domestic market. Additionally, financial literacy of the population is also crucial in the process of selecting investment of free funds, so the concept of investing in investment funds should be viewed as a long-term investment.

We can conclude that the structure of investments depends on the development of the financial market, which, through quality securities, provides these institutions with greater opportunities for adequate and wise investing. In other words, investment funds act as financial intermediaries in the market by pooling funds from individual investors and then investing in various securities depending on the level of risk they want to take in the market.

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