

Dariusz J. Błaszczuk\*

## A NOTE ON THE INVESTMENT FUNDS' MANAGEMENT FEES<sup>1</sup>

---

### *Abstract*

*The aim of this paper is to discuss the real (gross) values of the management fees charged by the investment funds' managing firms in Poland as well as the difference between these values and the published ones on one hand and between them and the respective fees charged by the managing firms in Western European countries on the other.*

*To meet this aim the concept of the real (gross) rate of return on investment funds is presented first. Next the formulas are developed to compute values of this rate of return in terms of simple as well as compound interest rates assuming that the net rate of return of the investment fund as well as the net management fee are known.*

*On that basis the investigated real (gross) values of the management fees are computed for a number of sets of values of investment fund's net rates of return on one hand and the values of the published management fees on the other. These values are presented in the tables attached to the paper.*

*The paper ends with the considerations why investment funds' management fees charged by the managing firms operating on the Polish market are much higher than in Western European economies. Then follow answers and the two related questions: when the management fees on the Polish market will be reduced to the level of western European standards and what are the preconditions for the reduction of the management fees on the Polish market. The main conclusion is that the respective actions of the Polish Government are required to reduce these fees in favour of the whole economy and especially of the individuals.*

---

JEL classification code: C19, G23

**Keywords:** management fee, investment funds .

---

\* Prof., Ph.D., The Department of International Business & Finance, Kazimierz Pulaski University of Technology and Humanities in Radom

<sup>1</sup> The origin of this paper is due to the discussion at my Ph. D. seminar with Ph. D. candidate Jacek Kuciński M. Sc. (Econ.) who noticed that there is the difference between the published management fees and the real ones and that they are extremely high in Poland.

## Introduction

The net assets' value of every investment fund at the end of each and every working day ( $NAV_t$ ) is invested next working day. In other words, we have series of values for any investment fund:  $NAV_1, NAV_2, \dots, NAV_{t'}$ . Therefore, one can check easily effectiveness of management of each and every investment fund comparing its net assets' value on any day  $t = 2, 3, \dots, t'+1$  with its value on the previous day, namely:

$$\frac{NAV_2}{NAV_1} = (1 + r_1)^{1/365} \quad (1.1)$$

$$\frac{NAV_3}{NAV_2} = (1 + r_2)^{1/365} \quad (1.2)$$

$$\frac{NAV_{t'+1}}{NAV_{t'}} = (1 + r_{t'})^{1/365} \quad (1.t')$$

where:

$r_t$  is the yearly net rate of return of the given investment fund approximated on the basis of its net rate of return achieved on day  $t$ .

From (1.1) through (1.t') one can easily compute the net effectiveness of management of the given investment fund over a given period of time:

$$\frac{NAV_{t'+1}}{NAV_1} = (1 + r_1)^{1/365} \cdot (1 + r_2)^{\frac{1}{365}} \cdot \dots \cdot (1 + r_{t'})^{1/365} \quad (2)$$

The same value can be obviously calculated directly as:

$$\frac{NAV_{t'+1}}{NAV_1} = (1 + r_{1/t'})^{t'/365} \quad (2')$$

where:

$r_{(1/t')}$  is the yearly net rate of return of the given investment fund approximated on the basis of its average net rate of return achieved during the period from  $t = 2$  to  $t = t'+1$ ,

that is equivalent to:

$$\frac{NAV_{t'+1}}{NAV_1} = (1 + r_{g(t')})^{t'/365} \quad (2'')$$

where:

$1 + r_{g(t')}$  is geometric mean of series  $1 + r_1, 1 + r_2, \dots, 1 + r_{t'}$ .

Therefore, after one year we have obviously:

$$\frac{NAV_{366}}{NAV_1} = (1 + r_g) \quad (2'')$$

where:

$r_g$  is the actual yearly net rate of return of the given investment fund.

However, one must remember that the managing firms charge investors with the management fee and it is not reflected in the formulas given above. Moreover, although the level of the management fee is published in the statutes or other official document of each and every investment fund (let us call it net management fee), usually it is not even perceived by the individual investors. Furthermore, the real amount of management fee (let us call it gross management fee) is higher than the respective figure announced in this or other publication of the managing firm. We show further that difference between the real management fee and the published one depends upon the value of either the net or the gross rate of return of the given investment fund and the level of the net management fee. This difference depends also on the calculation method of the every day's management fee that may be based either on simple interest rate (as it is in practice) or on compound one (that would be more favorable for the investors). The respective figures of any investment fund for chosen values of the net rate of return and the chosen levels of the net management fee are presented as well.

Some considerations on the behavior of the managing firms on the Polish market with respect to the level of net management fees as compared with their behavior in this respect in the Western European economies conclude the paper.

All considerations in this paper are based on a 365/365 base. In case of a different base all the formulas given in the paper should be adjusted accordingly. However, different bases are not considered because whatever base is used, all considerations and conclusions given in the paper remain valid.

Similarly, in order to reflect the existence of the non-working days, all the formulas given in the paper should be adjusted substituting number 1 in the numerator of their exponents by the actual number of days expiring between the two consecutive working days. Having this in mind, all the formulas given in the paper are left unchanged because it does not affect neither the considerations nor conclusions presented in the paper.

## 1. The real value of the management fee

To find the real management fee of any investment fund one must remember that:

- 1) the results of the investment of a given amount of money during the given day by the managing firm (gross assets' value – GAV) occur at the beginning of the next day:

$$GAV_{t+1} = NAV_{t'} \cdot (1 + g_t)^{1/365} \quad (3)$$

where:

$g_t$  is the yearly gross rate of return of the given investment fund approximated on the basis of its (unknown for the time being) gross rate of return achieved on day  $t$ ;

- 2) the managing firm charges  $GAV_{t+1}$  with the respective part of the yearly management fee calculated on the basis of  $NAV_t$ . From the theoretical point of view it can be done using simple or compound interest rate. If the fee is calculated according to simple interest rate, the daily charge is equal to  $f/365$  otherwise it equals to  $f^{1/365}$ ;
- 3) next day the managing firm invests the  $GAV_{t+1}$  diminished by the respective part of the yearly management fee.

The real values of the management fee in the given two cases of the interest rate calculation methods are considered in details in the following two subsections.

## 1.1. Management fee in the case of the simple interest rate

In the case of a simple interest rate the formulas (1.1) through (1.t') must be transformed into the following equations:

$$NAV_2 = NAV_1 \cdot (1 + g_1)^{\frac{1}{365}} - NAV_1 \cdot \frac{f}{365} = NAV_1 \cdot \left[ (1 + g_1)^{\frac{1}{365}} - \frac{f}{365} \right] \quad (4.1)$$

$$NAV_3 = NAV_2 \cdot \left[ (1 + g_2)^{\frac{1}{365}} - \frac{f}{365} \right] \quad (4.2)$$

$$NAV_{t'+1} = NAV_{t'} \cdot \left[ (1 + g_{t'})^{\frac{1}{365}} - \frac{f}{365} \right] \quad (4.t')$$

From (4.1) through (4.t') one can easily compute the net effectiveness of management of the given investment fund over a given period of time similarly to formula (2):

$$\frac{NAV_{t'+1}}{NAV_1} = \left[ (1 + g_1)^{\frac{1}{365}} - \frac{f}{365} \right] \cdot \left[ (1 + g_2)^{\frac{1}{365}} - \frac{f}{365} \right] \cdot \dots \cdot \left[ (1 + g_{t'})^{\frac{1}{365}} - \frac{f}{365} \right] \quad (5)$$

The same value can be obviously calculated directly as:

$$\frac{NAV_{t'+1}}{NAV_1} = \left[ (1 + g_{1/t'})^{\frac{1}{365}} - \frac{f}{365} \right]^{t'} \quad (5')$$

where:

$g_{(1/t)}$  is the yearly gross rate of return of the given investment fund approximated on the basis of the its gross rate of return achieved during the period from  $t = 2$  to  $t = t' + 1$ ,

that is equivalent to:

$$\frac{NAV_{t'+1}}{NAV_1} = \left[ (1 + g_{g(t')})^{\frac{1}{365}} - \frac{f}{365} \right]^{t'} \quad (5'')$$

where:

$1 + g_{g(t')}$  is geometric mean of series  $1 + g_1, 1 + g_2, \dots, 1 + g_{t'}$ .

Therefore, after one year we have:

$$\frac{NAV_{366}}{NAV_1} = \left[ (1 + g_g)^{\frac{1}{365}} - \frac{f}{365} \right]^{365} \quad (5''')$$

where:

$g_g$  is the yearly gross rate of return of the given investment fund, that is obviously equal to  $(1 + r_g)$  given by formula (2'''). Therefore:

$$\left[ (1 + g_g)^{\frac{1}{365}} - \frac{f}{365} \right]^{365} = 1 + r_g \quad (6)$$

$$(1 + g_g)^{\frac{1}{365}} - \frac{f}{365} = (1 + r_g)^{\frac{1}{365}} \quad (6')$$

$$(1 + g_g)^{\frac{1}{365}} = (1 + r_g)^{\frac{1}{365}} + \frac{f}{365} \quad (6'')$$

$$1 + g_g = \left[ (1 + r_g)^{\frac{1}{365}} + \frac{f}{365} \right]^{365} \quad (6''')$$

$$g_g = \left[ (1 + r_g)^{\frac{1}{365}} + \frac{f}{365} \right]^{365} - 1 \quad (6''''')$$

that in percentage terms is obviously equal to:

$$g_g = \left\{ \left[ (1 + r_g)^{\frac{1}{365}} + \frac{f}{365} \right]^{365} - 1 \right\} \cdot 100\% \quad (6''''''')$$

The figures of gross rate of return for any investment fund for the chosen values of the net rate of return and the chosen levels of the net management fee are

presented in Table 1. The difference between the value of the gross rate of return for the given net rate of return and the given net management fee (being the given entry in the Table 1) on one hand and the net rate of return on the other (given in the first column of the Table 1) is the gross management fee we have looked for. Having this figure one can easily compute the difference between the real (gross) management fee and the respective net one (given in the first row of the Table 1) both in absolute terms as well as in percentage ones (see columns 3 through 12 of table 3).

## 1.2. Management fee in the case of a compound interest rate

The gross management fee computed according to the compound interest rate can be found similarly to the previous case. However, in the case of the compound interest rate the formulas (4.1) through (4.t') must be changed to the following ones:

$$\begin{aligned} NAV_2 &= NAV_1 \cdot (1 + g_1)^{\frac{1}{365}} - NAV_1 \cdot \left[ (1 + f)^{\frac{1}{365}} - 1 \right] = \\ &= NAV_1 \cdot \left\{ (1 + g_1)^{\frac{1}{365}} - \left[ (1 + f)^{\frac{1}{365}} - 1 \right] \right\} \end{aligned} \quad (7.1)$$

$$NAV_3 = NAV_2 \cdot \left\{ (1 + g_2)^{\frac{1}{365}} - \left[ (1 + f)^{\frac{1}{365}} - 1 \right] \right\} \quad (7.2)$$

⋮

$$NAV_{t'+1} = NAV_{t'} \cdot \left\{ (1 + g_{t'})^{\frac{1}{365}} - \left[ (1 + f)^{\frac{1}{365}} - 1 \right] \right\} \quad (7.t')$$

From (7.1) through (7.t') one can easily compute the effectiveness of management of the given investment fund over a given period of time similarly to formulas (2) and (5):

$$\begin{aligned} \frac{NAV_{t'+1}}{NAV_1} &= \left\{ (1 + g_1)^{\frac{1}{365}} - \left[ (1 + f)^{\frac{1}{365}} - 1 \right] \right\} \cdot \left\{ (1 + g_2)^{\frac{1}{365}} - \left[ (1 + f)^{\frac{1}{365}} - 1 \right] \right\} \cdot \dots \cdot \\ &\dots \cdot \left\{ (1 + g_{t'})^{\frac{1}{365}} - \left[ (1 + f)^{\frac{1}{365}} - 1 \right] \right\} \end{aligned} \quad (8)$$

The same value can be obviously calculated directly as:

$$\frac{NAV_{t'+1}}{NAV_1} = \left\{ (1 + g_{1/t'})^{\frac{1}{365}} - \left[ (1 + f)^{\frac{1}{365}} - 1 \right] \right\}^{t'} \quad (8')$$

that is equivalent to:

$$\frac{NAV_{t'+1}}{NAV_1} = \left\{ (1 + g_{g(t')})^{\frac{1}{365}} - \left[ (1 + f)^{\frac{1}{365}} - 1 \right] \right\}^{t'} \quad (8'')$$

Therefore, after one year we have:

$$\frac{NAV_{366}}{NAV_1} = \left\{ (1 + g_g)^{\frac{1}{365}} - \left[ (1 + f)^{\frac{1}{365}} - 1 \right] \right\}^{365} \quad (8''')$$

that is obviously equal to  $(1 + r_g)$  given by formula (2'''). Therefore:

$$\left\{ (1 + g_g)^{\frac{1}{365}} - \left[ (1 + f)^{\frac{1}{365}} - 1 \right] \right\}^{365} = 1 + r_g \quad (9)$$

$$(1 + g_g)^{\frac{1}{365}} - \left[ (1 + f)^{\frac{1}{365}} - 1 \right] = (1 + r_g)^{\frac{1}{365}} \quad (9')$$

$$(1 + g_g)^{\frac{1}{365}} = (1 + r_g)^{\frac{1}{365}} + (1 + f)^{\frac{1}{365}} - 1 \quad (9'')$$

$$1 + g_g = \left[ (1 + r_g)^{\frac{1}{365}} + (1 + f)^{\frac{1}{365}} - 1 \right]^{365} \quad (9''')$$

$$g_g = \left[ (1 + r_g)^{\frac{1}{365}} + (1 + f)^{\frac{1}{365}} - 1 \right]^{365} - 1 \quad (9''''')$$

that in percentage terms is obviously equal to:

$$g_g = \left\{ \left[ (1 + r_g)^{\frac{1}{365}} + (1 + f)^{\frac{1}{365}} - 1 \right]^{365} - 1 \right\} \cdot 100\% \quad (9''''''')$$

The figures of gross rates of return for any investment fund for the same values of the net rate of return and the levels of the net management fee as in the case of simple interest rates are presented in Table 2. The difference in Table 2 between the value of the gross rate of return for the given net rate of return and the given net management fee (being the given entry in the Table 2) on one hand and the net rate of return on the other (given in the first column of the Table 1) is naturally the gross management fee in case of the management fee charged on the basis of the compound interest. Obviously, the respective figures in this case is somewhat smaller then in the case of simple interest rate basis presented

in Table 1. Unfortunately for the investors, the managing firms compute their management fees on simple interest base.

Then one can easily compute the difference between the real (gross) management fee in this case and the corresponding net one (given in the first row of the Table 1) both in absolute terms as well as in percentage ones(see column 2 of table 3).

**Table 1. Gross rates of return of investments funds for net rates of return from 10,0% to 20,0% and (net) management fees from 0,5% to 5,0% charged on the simple interest rate basis**

r \ f	0,5	1,0	1,5	2,0	2,5	3,0	3,5	4,0	4,5	5,0
10,0	10,55	11,11	11,66	12,22	12,78	13,35	13,92	14,49	15,06	15,64
10,5	11,05	11,61	12,17	12,73	13,30	13,86	14,43	15,01	15,58	16,16
11,0	11,56	12,12	12,68	13,24	13,81	14,38	14,95	15,53	16,11	16,69
11,5	12,06	12,62	13,18	13,75	14,32	14,89	15,47	16,05	16,63	17,21
12,0	12,56	13,13	13,69	14,26	14,83	15,41	15,99	16,57	17,15	17,74
12,5	13,06	13,63	14,20	14,77	15,35	15,92	16,51	17,09	17,68	18,27
13,0	13,57	14,14	14,71	15,28	15,86	16,44	17,02	17,61	18,20	18,79
13,5	14,07	14,64	15,21	15,79	16,37	16,96	17,54	18,13	18,72	19,32
14,0	14,57	15,15	15,72	16,30	16,88	17,47	18,06	18,65	19,24	19,84
14,5	15,07	15,65	16,23	16,81	17,40	17,99	18,58	19,17	19,77	20,37
15,0	15,58	16,16	16,74	17,32	17,91	18,50	19,09	19,69	20,29	20,89
15,5	16,08	16,66	17,24	17,83	18,42	19,02	19,61	20,21	20,81	21,42
16,0	16,58	17,17	17,75	18,34	18,94	19,53	20,13	20,73	21,34	21,94
16,5	17,08	17,67	18,26	18,85	19,45	20,05	20,65	21,25	21,86	22,47
17,0	17,59	18,18	18,77	19,36	19,96	20,56	21,17	21,77	22,38	23,00
17,5	18,09	18,68	19,27	19,87	20,47	21,08	21,68	22,29	22,91	23,52
18,0	18,59	19,19	19,78	20,38	20,99	21,59	22,20	22,81	23,43	24,05
18,5	19,09	19,69	20,29	20,89	21,50	22,11	22,72	23,33	23,95	24,57
19,0	19,60	20,20	20,80	21,40	22,01	22,62	23,24	23,85	24,47	25,10
19,5	20,10	20,70	21,31	21,91	22,52	23,14	23,75	24,37	25,00	25,62
20,0	20,60	21,21	21,81	22,42	23,04	23,65	24,27	24,89	25,52	26,15

Source: Own computations according to formula ( $6^{****}$ ).



**Table. 2. Gross rates of return of investments funds for net rates of return from 10,0% to 20,0% and (net) management fees from 0,5% to 5,0% charged on the compound interest rate basis**

f\r	0,5	1,0	1,5	2,0	2,5	3,0	3,5	4,0	4,5	5,0
10,0	10,55	11,10	11,65	12,20	12,75	13,30	13,85	14,40	14,95	15,50
10,5	11,05	11,60	12,16	12,71	13,26	13,81	14,37	14,92	15,47	16,02
11,0	11,55	12,11	12,66	13,22	13,77	14,33	14,88	15,44	15,99	16,55
11,5	12,06	12,61	13,17	13,73	14,29	14,84	15,40	15,96	16,52	17,07
12,0	12,56	13,12	13,68	14,24	14,80	15,36	15,92	16,48	17,04	17,60
12,5	13,06	13,62	14,19	14,75	15,31	15,87	16,44	17,00	17,56	18,12
13,0	13,56	14,13	14,69	15,26	15,82	16,39	16,95	17,52	18,08	18,65
13,5	14,07	14,63	15,20	15,77	16,34	16,90	17,47	18,04	18,61	19,17
14,0	14,57	15,14	15,71	16,28	16,85	17,42	17,99	18,56	19,13	19,70
14,5	15,07	15,64	16,22	16,79	17,36	17,93	18,51	19,08	19,65	20,22
15,0	15,57	16,15	16,72	17,30	17,87	18,45	19,02	19,60	20,17	20,75
15,5	16,08	16,65	17,23	17,81	18,39	18,96	19,54	20,12	20,70	21,27
16,0	16,58	17,16	17,74	18,32	18,90	19,48	20,06	20,64	21,22	21,80
16,5	17,08	17,66	18,25	18,83	19,41	19,99	20,58	21,16	21,74	22,32
17,0	17,58	18,17	18,75	19,34	19,92	20,51	21,09	21,68	22,26	22,85
17,5	18,09	18,67	19,26	19,85	20,44	21,02	21,61	22,20	22,79	23,37
18,0	18,59	19,18	19,77	20,36	20,95	21,54	22,13	22,72	23,31	23,90
18,5	19,09	19,68	20,28	20,87	21,46	22,05	22,65	23,24	23,83	24,42
19,0	19,59	20,19	20,78	21,38	21,97	22,57	23,16	23,76	24,35	24,95
19,5	20,10	20,69	21,29	21,89	22,49	23,08	23,68	24,28	24,87	25,47
20,0	20,60	21,20	21,80	22,40	23,00	23,60	24,20	24,80	25,40	26,00

Source: Own computations according to formula (9<sup>\*\*\*\*</sup>).

**Table 3. Difference between gross management fees and the net ones (in % of the later) for net rates of return from 10,0% to 20,0% and (net) management fees charged on the compound interest rate basis (column 2) and (net) management fees from 0,5% to 5,0% charged on the simple interest rate basis (remaining columns)**

f \ r	Interest rates										
	com- pound	simple									
		0,5	1,0	1,5	2,0	2,5	3,0	3,5	4,0	4,5	5,0
10,0	9,97	10,25	10,52	10,80	11,07	11,35	11,63	11,91	12,19	12,48	12,76
10,5	10,47	10,75	11,02	11,30	11,58	11,86	12,14	12,42	12,70	12,99	13,27
11,0	10,97	11,25	11,52	11,80	12,08	12,36	12,64	12,93	13,21	13,50	13,78
11,5	11,47	11,75	12,02	12,30	12,59	12,87	13,15	13,43	13,72	14,00	14,29
12,0	11,97	12,24	12,53	12,81	13,09	13,37	13,66	13,94	14,23	14,51	14,80
12,5	12,46	12,74	13,03	13,31	13,59	13,88	14,16	14,45	14,74	15,02	15,31
13,0	12,96	13,24	13,53	13,81	14,10	14,38	14,67	14,96	15,24	15,53	15,82
13,5	13,46	13,74	14,03	14,31	14,60	14,89	15,17	15,46	15,75	16,04	16,34
14,0	13,96	14,24	14,53	14,82	15,10	15,39	15,68	15,97	16,26	16,55	16,85
14,5	14,46	14,74	15,03	15,32	15,61	15,90	16,19	16,48	16,77	17,06	17,36
15,0	14,96	15,24	15,53	15,82	16,11	16,40	16,69	16,98	17,28	17,57	17,87
15,5	15,45	15,74	16,03	16,32	16,61	16,91	17,20	17,49	17,79	18,08	18,38
16,0	15,95	16,24	16,53	16,82	17,12	17,41	17,70	18,00	18,30	18,59	18,89
16,5	16,45	16,74	17,03	17,33	17,62	17,91	18,21	18,51	18,80	19,10	19,40
17,0	16,95	17,24	17,53	17,83	18,12	18,42	18,72	19,01	19,31	19,61	19,91
17,5	17,45	17,74	18,04	18,33	18,63	18,92	19,22	19,52	19,82	20,12	20,42
18,0	17,95	18,24	18,54	18,83	19,13	19,43	19,73	20,03	20,33	20,63	20,94
18,5	18,44	18,74	19,04	19,33	19,63	19,93	20,23	20,54	20,84	21,14	21,45
19,0	18,94	19,24	19,54	19,84	20,14	20,44	20,74	21,04	21,35	21,65	21,96
19,5	19,44	19,74	20,04	20,34	20,64	20,94	21,25	21,55	21,85	22,16	22,47
20,0	19,94	20,24	20,54	20,84	21,14	21,45	21,75	22,06	22,36	22,67	22,98

Source: Own computations on the basis of figures given in table 1 and table 2.

## **2. Why the investment funds' management fees on the Polish market and in Western European economies are different and how long the differences will exist?**

In the screenplay of the movie „Kariera Nikodema Dyzmy” based on the well known book written in the pre-World War II period by the Polish author Tadeusz Dołęga-Mostowicz the title hero used to ask during shopping: „How much is it and why is it that much expensive?” It was funny because the second part of the question had been articulated before there was any chance for any answer to its first one. The same question may be put with respect to the investment funds'

management fees charged by the managing firms operating on the Polish market. Unfortunately, there is nothing funny in it for the Polish investors. Namely, the respective net fees are at the level of 3,7% p.a. in the case of equity (Polish: akcyjne) funds and 3,6% in the case of balanced (Polish: zrównoważone) funds and they are about 2,5 times higher than, for instance, in Luxembourg where they are equal accordingly to 1,6% p.a. and 1,5% p.a.

Therefore the Dyzma's question may be reformulated to read as follows: why investment funds' management fees charged by the managing firms operating on the Polish market are so much higher than in Western European economies? There is a set of the straightforward answers to this question, namely:

- 1) unit financial results of the managing firms operating on the Polish market are far better than those of their western European counterparts so they must have extra premiums. One would be really happy if it is true. Unfortunately, there is no statistical evidence confirming the extraordinary good results of the managing firms operating on the Polish market;
- 2) unit operating costs of the managing firms operating on the Polish market are far higher than those of their western European counterparts. Operating costs consist of labour costs, cost of materials and services and cost of amortization of the fixed assets used in providing services by the managing firms. For the time being all of them seem to be smaller in Poland than in any western European country;
- 3) total management fee earned by individual managing firm operating on the Polish market must be much higher than in any western European country because the total net value of assets under its management in Poland is much lower than in the other countries and, otherwise, it would not be sufficient to cover its total operating costs. The last part of this statement was probably sometimes true in the nineties of the last century and has also been valid in case of managing firms that just had entered the market later on<sup>2</sup>;
- 4) the extraordinary high profits are earned by the managing firm operating on the Polish market or, in other words, they try to earn as much as they can to

---

<sup>2</sup> Pierwszy Polski Fundusz Powierniczy „Pioneer” that started in 1992, gathered about 2,0 mld PLN in 1994 and had under management 1,4 mld PLN at the end of 1996 when it constituted 94,5% of the total NAV in Poland. At that moment there were two other managing firms that operated practically only in 1996. On the other hand in 2009 there was about 40 managing firms and they had about 100 mld PLN under management. (For details see, for instance: Kuciński J.: Rynek polskich funduszy inwestycyjnych, Dom Wydawniczy „Elipsa”, Warszawa 2011, s. 50 – 51, 123 i 130). One can assume that Pioneer earned management fees altogether equal to about 100 mln PLN (2/3 of this amount during the hossa at the end of 1993 and the other part in 1996) while the other two firms earned management fees altogether equal to about 4 mln PLN. Also nowadays there is not much room for the beginners as the average value of assets under management of one company (2,5 mld PLN) is not very much different from the respective figures in the nineties of the last century.

catch up with the relative earnings of their western European counterparts. Unfortunately, there is no doubt with respect to this statement. Obviously, one can agree that there is no special (even unwritten) agreement between the managing firms with respect to this issue. Nevertheless, one can be afraid that the managing firms operating on the Polish market will keep their management fees at the current levels as long as possible irrespectively of the total amount of value of assets gathered by them and there is no chance for any competition between them with respect to the management fees.

Therefore there are two questions connected with the results of the above given short analysis:

- 1) when the management fees on the Polish market will be reduced to the level of western European standards?
- 2) what are the preconditions for the reduction of the management fees on the Polish market?

The answers to the above given questions lay on the other side of the market, namely in the hands of customers. Speaking precisely, the matter is related to the level of consciousness of the Polish investors. As long as they are not prepared to transfer their funds abroad and to invest through the brokerage firms domiciled in, say, Luxembourg, the investment funds' managing firms operating on the Polish market may sleep peacefully. On the other hand, development of the European integration and growing knowledge of the possibilities of financial investments abroad as well as growing knowledge of methods of such investments will cause, sooner or later, that Poles will be investing through managing firms domiciled outside of Poland that will charge them less. As soon as this is true, the managing companies operating on the Polish market will have to reduce their managing fees' levels accordingly to meet the Western European competition or, in other words, to adjust themselves to the Western European standards.

Unfortunately, this lesson for the managing firms will cost Poles much. Firstly, probably it will last long before it happens. In other words, the management fees on the Polish market will remain high for many years because the changes in consciousness do not take place rapidly. Secondly, first experiences need not to be promising and sooner and or later they will hamper the discussed process of transferring to the foreign management firms. The most important is, however, that the respective transfers, as soon as they start to be popular and massive, will reduce substantially the amount of funds available for the Polish economy.

All the above statements lead to the conclusion that the Polish Government should immediately influence on the investment funds' managing firms to reduce their management fees to the western European standards as soon as possible. If the respective measures are efficient the positive results for the individuals as well as the whole Polish economy will be evident already in the nearest future and especially in the more distant one.