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COMPARING FUNDS INVESTING IN FINNISH MARKET

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I hereby declare that I have compiled the thesis independently
and all works, important standpoints and data by other authors
have been properly referenced and the same paper
has not been previously presented for grading.
The document length is 9476 words from the introduction to the end of conclusion.

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ABSTRACT

The aim of this paper is to investigate the funds investing in Finnish market and determine the best performing fund by comparing the different measures. This paper will only focus on funds that are investing in Finland. Their performance is compared throughout the years 2016-2019.

The paper tries to evaluate the performance between eight funds, which follows the same index and objectively find out which of them performs better, and in which should the people invest. The analyisis is done by looking the performances and costs of funds during a certain period of time and also in the meantime comparing the other examples and statistics found in the current market today.

Main results found in the study were that there are correlation between the performance, sharpe ratio and volatility levels and also the best performing fund was discovered during the research.

INTRODUCTION

Nowadays the financial markets are more global than ever and are expanding even more. The possibility to invest is extensive as well as the products that markets are offering. One of the popular types of investment vehicles are investment funds.

Funds give people a relatively easy and straightforward option to invest in the financial markets, they are easy to use even for the beginners and for people who are not obsessed to follow or working in the financial markets. Funds usually provide for the investor a good overall solution to invest in a variety of different markets. In that way, it lowers the risk to have loss that would occur when holding only a couple of shares. Of course, the risk still exists, and nobody can guarantee the performance of the funds in the short or in the long run. It is a very popular form of investing since the investor does not have to necessarily actively manage the assets he has.

In general there are two different ways of managing the funds. First one is actively managed fund where the portfolio manager does the decisions of the investments like where to invest and where to withdraw positions. The other one is passively managed fund, where the securities are picked automatically to follow a certain market index. Actively managed funds usually trade more actively in the markets and have higher costs due to the active trading and salary or rewards of the portfolio manager. Funds that follow the index usually have lower costs due to the reason that there is no active portfolio managing, less transactions and the investment decisions are based on to the algorithms and performance of the guidance index. In the actively managed fund, the portfolio manager is trying also actively win the market or index in which the fund is being compared, while in the passive fund the index cannot usually be beaten since it is following the index.

In Finland the possibilities to invest in the funds are huge it is known that the options citizens have are over 450 different domestic funds and about the same amount of foreign funds. Investing to the funds is also vastly popular and around one million people own some kind of funds provided by the different financial institutions. The total funds owned by Finnish citizens are calculated to be around one hundred and ten billion euros at the end of the year 2018. (Finanssiala 2019)

The aim of this paper is to investigate the funds investing in Finnish market and determine the best performing fund by comparing the different measures. The period anaylised in this thesis is 2016 to 2019. To fulfil the research aim, the author has formulated the following research question:

1. Which one of the Finnish funds have provided the best performance during the period 2016 to 2019?

The different funds that are to be followed in this study are Aktia Capital, Nordea Suomi, Evli Suomi Select B, POP Suomi, SEB Finlandia B, Seligson & Co Phoebus, Säästöpankki Kotimaa and Danske Bank's Suomi Osake. All the mentioned and studied funds are following the same OMX Helsinki CAP GI benchmark index. The performance measures analysed in this study include the volatility, sharpe ratio, return, cumulative return and fees from the funds.

The thesis consist of three parts, in the first part there will be theorethical background from the the funds and it will also include some finance theory. These theory parts will include description of actively and passively managed funds and also different classes of funds. The theory part will go through some financial theories such as portfolio theory, efficient market hypothesis and it will also show the performance measeures such as sharpe ratio, treynor ratio and jensen alpha. It will also cover the taxation from the perspective of the investor and Finnish legislation for the funds. In the theory will be also covered some previous studies about the performance of the Finnish fund market.

The second part of this thesis will include the methodology and it will also include the introduction and description of the funds included and investigated in this thesis. The third part will give to the reader the results found out in the thesis and will also include the discussion about the results. Finally the conclusion will wrap up the information and conclude the paper.

1. THEORETICAL BACKGROUND

A fund is a portfolio that offers investors a possibility to invest into a different financial instruments as a group. Funds are more diversified than a simple share and give also people less expensive and simpler an option to enter to the markets. They give investors a good alternative compared to investing in the shares. Also, funds are interesting trading equipment and they do not need as much of focus or expertise as shares. Each investor can invest the amount that is suitable for them as long as the rules of the fund allows it. The fund units are then equally shared to the investors depending on the amount of money invested in it. In this way it offers a good diversification to the investors that are investing to that particular fund. (Puttonen, Repo 2011, 53)

The funds can be targeted to a single market, geographical area or sector. It is also possible to target some specific instruments, for example shares, bonds or other funds. It can also be a balanced fund where the fund itself has different financial instruments to control the capital risk. This can be seen that if the fund only has shares it has a higher risk than the fund which is balanced and has different financial instruments to balance it.

The funds are controlled by the institution who is selling it to the investors. It can have a portfolio manager who actively adjusts the portfolio to compete with the market or specific benchmark index. A fund can also be passive, meaning that it follows a predetermined market index.

1.1. Actively and passively managed funds

Actively managed fund is a fund where the decisions regarding the fund and its performance are made by the portfolio manager and his team whom actively manages the fund. The aim of the portfolio manager and the team is to try to beat the index in which the fund is compared and also to provide as much profit as possible to the investors who have invested to the fund, although according to Müller and Weber, 2008 there are several studies that shows that the actively managed funds underperform against the index sometimes before and after the fees. What if the portfolio manager overperforms? Does this mean that the manager is skilled? According to Berk J. B. 2005

this is a common myth that outperforming portfolio manager would be some how more skilled than others. (Puttonen, Repo, 2011; Müller, Weber, 2008; Berk, J. B., 2005)

Actively managed funds are very efficient tools for banks and other financial institutions to lure in the customers to invest, since they offer an easy way to make investments even with very small amounts of money. Their aim is to provide profit for the owners and also to bank. Usually these funds tends to have different fees that are generating revenue to the company that owns the funds. Since the company also wants to make profit it is for their best interest to create the best possible solutions for their customers. (Rompotis G. G, 2013)

Passively managed funds, which can also be referred as index funds are products that financial institutions offer to customers alongside the actively managed funds and other types of instruments. The basic idea of these are that there is no active portfolio management as in actively managed funds. Therefore, they are easy to offer to investors who are extremely keen on looking for low cost options to raise their own capital and possibly not so interested to make active trading in the markets. Passive funds are following the index set to them and the decisions are based on the changes in the index and not in the knowledge or skill of the portfolio manager. (Rompotis G. G, 2013)

1.2. Types of investment funds

In Finland, the market looked more specifically in this paper the funds are divided roughly for two different group. Under the group one will fall all the UCITS-funds, which follow the regulation of the European Union and the second part or group is called as special funds. In Finland the Finnish Financial Supervisory Authority is controlling and observing the markets and funds offered inside the Finland's own market. (Pörssisäätiö, 2019)

The short-term bond funds are focused to have government treasury bills, bank certificates, companies' certificates that will last maximum of 12 months. The Money market funds are investing into the money markets and are known to be investing in short-term high credit quality instruments according to Baba, McCauley and Ramaswamy, 2009 in. Usually the money market is considered to be more or a less a safe haven for the investments when the markets are going down, since the currencies like japanese yeni, US dollar will not change their value so drastically. (Pörssisäätiö, 2019; Baba et al., 2009)

Long term bond funds tend to invest the available capital to the long-term bonds offered by the market, where the loan time is longer than one year. The typical products that offer these are normally either government or corporate bonds. The latter tend to have higher risk, since it is more likely that a enterprise will go to the bankruptcy rather than a country. These corporate bonds that can be used in these types of funds and are a bit higher risk bonds are called high yield bonds. In Finland these funds invest to the Finnish corporate bonds and also to foreign corporate bonds and government bonds. (Pörssisäätiö, 2019)

Equity funds mainly invest on the equities of the different companies. These funds can be divided in a various ways depending on the equities they invest, since the possibility to invest is very broad. Usually they are divided into different geographical areas, like a specific country as Finland in this case the domestic market, to specific region like the Nordics, the emerging markets. Also, another divider is the size of the companies they tend to invest, for example large or small cap companies. This indicates the size of the company the fund is investing, it can be also divided to a certain field, like medicine or technology companies. As well as the funds can be divided into the baskets are shown before they can be also labelled as investing on ethical perspective such as Nordea's Climate and environment fund, which target is to invest into the companies that intend to be sustainable for the environment and in that way help to reduce the global warming and the current load for the environment. (Pörssisäätiö, 2019)

Depending on the fund and what it contains it has a certain benchmark it follows. There are several benchmark indexes to follow, for example OMX Helsinki Cap and Euro STOXX 50 or probably the most famous one which is S&P 500. Each individual fund plan and profit expectations can be found inside the Key Information documents of the particular fund. (Pörssisäätiö, 2019)

These funds invest on both equities and bonds and depending on the current situation in the market the portfolio manager can balance between higher portion of equities or bonds. For example, Nordea offers in the market different types of balanced funds such as Nordea säästö 25 or Nordea säästö 50, the number tells the investor how the fund is balanced between the equities, bonds and other instruments. More specific rules of the funds and how it allocates the investments can be found in the Key Information document, which is provided by the financial institution that is selling the fund, which in this case would be Nordea. (Pörssisäätiö, 2019)

Index funds are different from the previous funds in the way that the fund will only invest the equities that belongs to the index they follow, for example the fund that follows the OMX Helsinki Benchmark Index do only invest in the equities available in the benchmark index. The equities in the fund are picked in same weight that they are inside the benchmark index, the allocations will not have daily changes. The fund is observed on couple of days per year to match the allocations of the benchmark index it uses. The European Union directives are do control these funds by limiting the amount of the issuers weight on funds to a maximum of 20% and the maximum of the weight of the fund for one share is no more than 35%. (Pörssisäätiö, 2019)

Hedge funds are high risk funds, because they try to always aim to the maximum profit despite of the market situation, while some of these funds talked earlier try to beat their benchmark indexes or adapt to the benchmarks. Hedge funds use equities like the funds mentioned above, but also use derivatives to protect their investments when market is reacting to different situations. In the case of the hedge funds it is to be noted that they are not as regulated like the funds mentioned and it is worth to mention that they are not recommended to the investors that are not familiar with these sort of funds. Also, they are allowed to keep their strategies as a secret and do not have to publish them like the regular funds are told to. (Sijoitusrahasto, 2019; Burton, Atanu, 2005)

Exchange traded funds (ETF's) are funds, that are traded actively in the stock market like the regular equities but they are still funds usually these funds have lower fees since than normal funds since they also automatically follow the index. Most common types of Exchange traded funds are following a certain index such as iShares Core S&P 500 UCITS ETF. (Pörssisäätiö, 2019)

1.3. Portfolio theory

In the 1950's Economist Harry Markowitz created the modern portfolio theory, which is still widely in use today. He received the Nobel Prize in the 1990's for his work and it is considered to be one of the cornerstones in the investment world.(Harry M. Markowitz, 1991)

The portfolio theory is a tool for investors and portfolio managers to investigate the risk of their investments and returns and in that way to choose the best alternative to reduce the risk of the investments or look for the highest possible return for the portfolio. With this solution the investor

can control the risk and return of his or her portfolio and add or remove components in order to either reduce the risk or add risk in order to get higher returns. Since it is a well-known fact that higher risks usually grant for higher return than lower risk portfolios it is very useful to analyse a portfolio and look for the best possible outcome of the investments that suits best for the strategy that an investor is using in the markets. Modern portfolio theory it is used to seek the highest possible return in the minimum possible risk taken. (Omisore et. Al. 2012)

Taken in consideration with the investment funds, both actively and passively managed the spread of risk is well managed since both of these portfolios opt to have wide diversification of different shares both areal and business segment or businesses. Of course, with passively managed funds, which tend to follow a certain index or benchmark the diversification cannot be as great as in actively managed funds and their goal is not outperform the index as the actively managed funds are, where the portfolio manager and the team has wider range of tools to determine the portfolio they manage. If the portfolio manager is not able to follow the index or outperform it it is considered to underperform against the benchmark, which is studied in the paper of Vincent Glode, 2010.(V. Glode, 2010)

1.3.1. Market anomalies

These are things that happen in the markets practically without any scientific or logical reason and are not align with the efficient market hypothesis, therefore they are considered to be a sign of inefficient market. It is known that some of these unusual occurrences happen once and others keep happening time and time on (Tversky, Kahneman 1986).

In finance theory this means an ocurrence where performance of one single stock or group of stocks act against the efficient market hypothesis. These cannot be explained with the efficient market hypothesis and they can be put in a three different categories, those are: calendar anomalies, fundamental anomalies and technical anomalies. (Latif et al., 2011)

Calendar anomalies occur for example before and after weekend, which is called the weekend effect, usually the stock prices tend to rise up on Friday before the weeken and on the other hand decline on Monday after weekend. Also one mentionable is the January effect when the prices are generally going up on companies. (Latif et al., 2011)

Fundamental anomalies are for example value anomaly, high dividend yield and low price to earnings. The value anomaly happens because the investors are estimating wrongly the growth of the companies or by under or overestimating the future returns according to Bako et al. 2013. On the high dividend yield anomaly many studies show that the high dividend yield outperform in comparison to low dividend yield companies according to Latif et al. 2011. Price to earnings ratio anomaly again refers to the assumption that the stock with low price to earnings ratio have better return than the stock with high P/E ratio. (Latif et al. 2011; Bako et al. 2013)
Technical anomalies is for example moving averages, in moving averages the strategy is to buy stocks when the average of short period rises over the averages of long period and to sell when the averages of low period fall below averages of the long period. (Latif et al., 2011)

1.4. Performance measures

It is Important to measure the performance of the funds, because there are lots of possibilities to the invest in the market. Also measuring the performance of the fund gives the company a possibilty to advertise the fund by revealing the perfomance to the investors. Without the possibilty to advertise how well the fund has been performing it would be very difficult to attract new investors to join the fund. When the perfomance is avalaibe the investors can easily see how the portfolio manager is performing and whether he or she can be trusted to invest. It also has to be taken into account that historical performance is not reliable way to forecast the future but it reveals how the portfolio manager has handled difficult stages of the market before. Of course the investor should be familiar with the basic tools in which they use for measuring funds. (Puttonen, Repo 2011, 79-80)

The idea of investing money is for the investor to receive profit for the amount invested, in the case of investing funds there is no difference in that. When investing there are three key aspects that you have to take into a consideration, those are profit, risk and time. Looking closer of those three aspects the first one is probably the most easy to explain and define. Time is the time that you are looking to invest, it can be short-term or long term. Usually when investing to funds the timeline is long term investment, because the funds are more suitable for that, in the short-term investing there are other instruments that are better for it. Also the profit can be measured in a straightforward method, it is the change in the value of your investment. There has to be taken in account the dividends and also all the costs that are included in the funds. When investing into the

funds that are not giving dividends the company that issues the fund is doing all this for the investor and all the costs that occur the issuing company will deduct automatically from the fund, so the investor will not have to do it. (Puttonen & Repo, 2011, 79-80)

1.4.1. Sharpe Ratio

This ratio was developed by the William Sharpe in the year 1966 it measures the portfolio's and portfolio managers performance. It compares expected return against the volatility of the portfolio measured. At first Sharpe used the name "reward-to-variability ratio", to be opened it is calclulated with the expected return of the portfolio minus the risk free rate of return and then divided with the standard deviation of the expected return of the portfolio as seen in the formula below.(Sharpe 1966)

$$Sharpe\ ratio = \frac{R_P - R_f}{\sigma_P} \quad (1)$$

Where:

R_P Expected return of the portfolio

R_f Risk free rate of return

σ_P Standard deviation of the expected return

Sharpe ratio is interpretaded so that the higher number the formula gives the better the profit is the more attractive is the fund that was measured with it. As majority of the models Sharpe ratio is showing only data from the past and it cannot project to the future. Some critics of the Sharpe ratio is that the portfolio managers can manipulate it to show false information to the investors, for example if the time of the period is long the volatility will also be lower and it has on affect to the formula. Also another way to use it to make the fund more interesting is to choose an interval where the performance has been relatively good in comparison to a neutral period of the fund according to Puttonen & Repo 2011. (Puttonen, Repo, 2011 105-107, 201)

1.4.2. Jensen's Alpha

Jensen's alpha is a tool of measuring how well the portfolio chosen is performing against the risk it has in it. In other words, Jensen's alpha is a measure of abnormal performance. If the alpha is positive it tells to the investor or portfolio manager that the particular portfolio has performed better the market. (Vaihekoski, 2004, 261)

1.4.3. Treynor Ratio

Treynor Ratio was developed by Jack Lawrence Treynor in the 1900's and it is still widely used for example to demonstrate the perfomance of the mutual funds. (Hübner, 2005)

Treynor ratio is a different kind of risk to reward measurement tool for portfolio managers, it also examine the risk and reward inside the portfolio. But unlike the Sharpe ratio the return is being proportioned to the portfolio's risk which is being measured with the portfolio's beta. It is and excellent tool to measure the rewards of portfolios when the portfolio is well diversified. (Hübner, 2005)

$$\text{Treynor ratio} = \frac{r_p - r_f}{\beta_p} \quad (2)$$

Where:

r_p is the expected return of the portfolio

r_f is he risk free rate of return

β_p is beta of the portfolio

1.4.4 Previous studies from Finnish funds

The earlier available studies of Finnish fund market are limited since mutual funds are relatively new investment tool in the Finnish market. The legislation of making investment funds possible to the Finnish investors was created in 1987 and in the early 90's Finland was suffering from a very severe regression and therefore people did not necessarily had money to make investments because every day life was struggle and consumed money and savings. The Finnish fund industry because of the regression actually started to develop in the 90s and in the 2000's it has grown ever since as a large industry in the Finnish financial market. (Puttonen & Repo, 2011, 7-9)

When looked back in the history of Finnish funds it is not unusual that the funds outperform their benchmark index. This can be seen as the effect that usually smaller developing markets the actors who act first and fast are in a better position for the future outcome of the prices of the shares. (Thomas C.H. Sandvall, 2000)

2. SAMPLE AND METHODOLOGY

In this paper there are in comparison eight different funds that are all comparable and follow the same benchmark index, which is OMX Helsinki CAP GI. All these funds invest in Finnish corporations and therefore their performance can be compared. All the data is collected from Sijoitustutkimus Oy, which provides the data from Finnish funds to the investors and institutes. The data is collected for the years 2016-2019 and the analysis is based on the data from the last date of December of each year.

All funds in this comparison are funds that are directly investing to shares of Finnish companies and these funds are not giving dividends to its owners, because they are investing the dividends received forward. Since all these funds are investing directly to the shares the risk of the funds is higher than balanced funds and therefore the profit expectation is also higher. The funds that are looked into in this paper are Aktia Capital, Danske Invest Suomi Osake, Evli Suomi Select B, Nordea Suomi, POP Suomi, SEB Finlandia B, Seligson & Co Phoebus and Säästöpankki Kotimaa. All the funds are measured on a 1 to 7 scale risk-to-reward measurement, 1 being the lowest risk and 7 being the highest risk excpectation.

From the funds there will be comparison in the volatility of the funds, fees of the funds, profit of the funds, sharpe ratio of the funds and cumulative profits from the three and five years. The fund holding infromation and strategy are provided from the key investor information document (KIID), which are legal documents required in the European Union, these documents documents were created to investors to provide information for the funds in a simple package before they make decisions. (Oehler et al., 2014)

In Finland the funds and other investments are taxed whenever the profit is being withdrew for the investments, depending of the amount of profit depends also the tax rate. If the amount exceeds over 30 000 euros the tax will be for the profit thirty-four percent and when the amount is being lesser than that the percentage of taxation is thirty percent and tax is paid only from the profit. In the Finnish taxation it is also possible to reduce the losses from the investments in the taxation. Also there is a rule that helps people who have low amount of investments and they are in a need of money, it is possible to withdraw from the funds in a one calendar year up to 1000 euros away and not to pay taxes at all. Any amount over that and the tax has to be paid from the part of the possible profit.(VERO, 2019)

2.1. Information on sample

Aktia Capital fund is a fund from Finnish bank Aktia which invest in the Finnish market to shares and equity related securities of Finnish companies, also the fund will further invest all the dividends received from the equities and the currency in it is euros. All the decisions are made always after careful investigation of the companies and the vision of the portfolio manager is in the long run return. The goal is beat the benchmark index and to fulfil these targets the portfolio is actively managed by the portfolio manager. The fund tries to achieve these goals by finding companies from the market that are in a leading position against their competitors. These sort of factors are looked by the appreciation of the firm and its ability to create revenue and also the future growth of the company. The risk-to-reward profile of the fund is 6 out the 1-7 scaled table that describes the risk of the fund. (AKTIA KIID, 2020)

Table 1. 5 Largest holdings and diversification of funds

Company %		Sector %		Area %	
Qt Group PLC	8,57	Industry	29,94	EU Euro	96
Kone Oyj Class B	7,19	Technology	22,17	Eu non-Euro	4
Neste Corp	5,52	Material	9,31	USA	0
Nokia Oyj	4,85	Non-cyclical consumption	7,03	Canada	0
Detection Technology PLC	4,45	Energy	6,88	Latin America	0

Source: Morningstar 2020

Danske Invest Suomi Osake K is a fund from Danske Bank, the fund invests to shares and equity related securities in the Finnish market or highly on Finnish economy dependant companies and the fund also invests the dividends and interests received again inside the fund, the fund's currency is in euros. The fund has aim to create positive return to the investors in the long run period and follows the same benchmark index as the rest of the funds in this study. The risk-to-reward profile in this fund is 6 and portfolio management is active.(Danske KIID, 2020)

Company %		Sector %		Area %	
Neste Corp	9,3	Industry	28,37	EU Euro	97,09
Kone Oyj Class B	9,48	Finance	12,82	Eu non-Euro	2,91
Fortum Oyj	7,26	Material	11,2	USA	0
Sampo Oyj Class A	7,24	Technology	10,33	Canada	0
Nokia Oyj	6,39	Energy	10,09	Latin America	0

Source: Morningstar 2020

Evli Suomi Select B fund's strategy is to invest into Finnish companies and equity that are moderately priced and their cashflow is better than the companies they are being compared to. Also the fund tries to find that are undervalued against it peers, the fund also invests to equity related securities and the currency is in euros. The fund can also invest into derivaties in order to protect its assets in a certain market situations. The goal of this fund is to beat its benchmark index OMX Helsinki Cap GI and the goal is trying to be fulfilled with active portfolio management and the risk-to-reward profile is 5.(EVLI KIID,2020)

Company %		Sector %		Area %	
Neste Corp	8,6	Industry	17,92	EU Euro	98,11
Fortum Oyj	6,02	Material	14,48	Eu non-Euro	1,89
Nokia Oyj	5,79	Energy	10,64	USA	0
UPM-Kymmene Oyj	5,23	Finance	10,31	Canada	0
Sampo Oyj Class A	4,91	Non-cyclical consumption	8,66	Latin America	0

Source: Morningstar 2020

Nordea Suomi fund has in its objectives to create return into the funds invested in it, by actively managing the portfolio. The fund' currency is in euros and it also invests the dividends and other returns, like interests back to the fund. In the rules of fund there is a statement that it can use in the investment strategy to achieve goals Finnish equities and equity related securities. Also no more than 20% percent of the assets of the fund can be invested outside the Finnish market to another companies in the Nordics. The fund has a risk-to-reward profile 5 on a seven scale measurement.(Nordea KIID, 2020)

Company %		Sector %		Area %	
Nordea Bank Abp	9,13	Finance	22,2	EU Euro	85,02
Sampo Oyj Class A	9,12	Cyclical consumption	16,52	Eu non-Euro	14,98
Huhtamäki Oyj	7,98	Non-cyclical consumption	12,68	USA	0
Neste Corp	6,64	Industry	11,16	Canada	0
Kesko Oyj Class B	6,48	Technology	10,69	Latin America	0

Source: Morningstar 2020

POP Suomi B fund is a feeder fund, which has all the time at least 85% of its assets invested in Säästöpankki Kotimaa fund, which is also one of the funds studied in this thesis. The funds aim is to beat the benchmark index also with active portfolio management and investing into Finnish equities. The strategy of this fund is to look companies from the Finnish market that are creating good revvenue and dividend yield with commitment to develop the company in the long run, also the risk-to-reward number for this fund is 5.(POP Suomi B KIID, 2020)

Company %		Sector %		Area %	
Qt Group PLC	8,56	Industry	37,68	EU Euro	96,58
Kone Oyj Class B	7,19	Technology	19,79	Eu non-Euro	3,42
Neste Corp	5,52	Material	12,38	USA	0
Nokia Oyj	4,85	Cyclical consumption	7,57	Canada	0
Detection Technology PLC	4,45	Non-cyclical consumption	6,34	Latin America	0

Source: Morningstar 2020

SEB Finlandia B is a fund, which has active porftfolio management and it uses mainly companies that are Finnish and publicly listed in the Finnish stock exchange. The goal of the fund is to provide return to its investors with well diversified portfolio management. The fund has a risk-to-reward profile of 6 and it can also use derivatives in order to gain return or protect the value of investments.(SEB KIID,2020)

Company %		Sector %		Area %	
Sampo Oyj Class A	9,61	Industry	24,18	EU Euro	99,01
Nordea Bank Abp	9,26	Finance	19,66	Eu non-Euro	0,99
Nokia Oyj	9,1	Material	11,69	USA	0
Kone Oyj Class B	8,61	Technology	10,95	Canada	0
Neste Corp	4,86	Telecommunication	7,02	Latin America	0

Source: Morningstar 2020

Seligson & Co Phoebus is actively managed fund, which purpose is to beat the benchmark index, the fund balance is 60% in OMX Helsinki Cap GI index and 40% Morgan Stanley Capital

International ACWI index. The fund uses equities and securities and can do short-selling. This fund is a bit different to others, since it has also a performance fee included, it have to be paid if the fund beats the benchmark index, on the year 2019 the fee was 0,01%. The fee is 20% out of the return that exceeds the benchmark index, but it cannot be higher than three percent of the average fund assets. The risk class of this fund is 5 so it is not the highest in the comparison.(Seligson & Co Phoebus KIID,2020)

Company %		Sector %		Area %	
Air Liquide SA	8,6	Industry	29,44	EU Euro	46,05
Fastenal Co	6,02	Cyclical consumption	17,14	Eu non Euro	15,17
Costco Wholesale Corp	5,79	Material	17,07	USA	38,78
Progressive Corp	5,23	Non-cyclical consumption	10,77	Canada	0
Fortum Oyj	4,91	Finance	10,33	Latin America	0

Source: Morningstar 2020

Säästöpankki Kotimaa is equity fund that invests mainly in the Finnish equities, but can use derivatives in order to achieve better returns in active portfolio management. The fund tries to look for companies that are having good dividend yield, creating revenues and have good strategies to develop their assets and expertises in the long run. The fund is suitable for long term investors and has a riskprofile of 5.

Company %		Sector %		Area %	
Nokia Oyj	9,3	Technology	16,8	EU Euro	97,24
Fortum Oyj	8,6	Material	15,34	Eu non-Euro	2,76
Neste Corp	7,93	Industry	14,01	USA	0
Sampo Oyj Class A	6,68	Finance	12,15	Canada	0
Stora Enso Oyj Class R	5,08	Non-cyclical consumption	8,98	Latin America	0

Source: Morningstar 2020

3. RESULTS AND DISCUSSION

3.1. Data of the funds

By looking the yearly performance of the funds between 2016 and 2019 in Table 2, we can see that the results are scattered. The year 2016 was a relatively good year for all of the funds. All the funds made profit and the best fund, which was Seligson & Co Phoebus, won the benchmark index by 1,9%. Aktia Capital equalled the benchmark index and rest of the funds lost to the index, but were still able to make at least 7,9% profit for the year.

In 2017 the best performer was Evli Suomi Select B, which was the only one to reach above 10% of profit, to be exact the profit was 11,6%. This was narrow win in comparison to the benchmark index, which performed 11,5% profit in this year. Rest of the fund were not able to reach above 10% and the worst performance in this particular year was a tie between POP Suomi and Aktia Capital, which both were only able to reach the profit of 3,9%.

Table 2. Yearly performance of the funds between 2016 and 2019

Return per year, %				
Fund	2016	2017	2018	2019
Aktia Capital	13,3	3,9	-9	26,5
Danske invest Suomi Osake	7,9	6,4	-7,6	19,3
Evli Suomi Select B	10,8	11,6	-10	22,2
Nordea Suomi	9,6	7,8	-4,1	25,4
POP Suomi	13,3	3,9	-9	25,3
SEB Finlandia B	12,8	9,8	-10,9	21,5
Seligson & Co Phoebus	15,2	9	-5,6	27,5
Säästöpankki Kotimaa	10,2	7,2	-9,3	21,5
Benchmark Index	13,3	13,6	-3,9	20,4

Source: Sijoitustutkimus Oy, 2019

The year 2018 was a bad year for result wise to all of the fund companies. All funds showed negative results at the end of the year, Nordea Suomi and Seligson & Co Phoebus were notably

less in negative return than the other funds, while the worst number was from SEB Finlandia B which made negative return for 10,9%. Even the bencmark noted -3,9% negative numbers in the year of 2018, so the portfolio managers of Nordea and Seligson & Co made certainly better job in the difficult market situation where everyone in comparison failed to achieve positive return to investors..

The last period of the studied time was on the hand expectionally good in comparison to the year 2018, where the performance was bad in all but one studied funds. This year all expect one fund reached the profit above 20% and the difference between the best and worst fund was 8,2%. When in 2018 only one out eight funds overperformed against the index, was the year 2019 totally opposite to those figures. In this year from eight funds seven were able to overperfom the benchmark index which was showing at the end of December the profit of 20,4%.

The cumulative return of the compared funds respectively from three and five years can be seen from Table 3. These values are from the date 31.12.2019 and have been calculated backwards from it. From this table it is able to see clearly those funds which have perfomed better and worse during the period that this paper is investigating. It can be seen that Evli Suomi Select B fund has been performing the best on both the three and five year cumulative periods and the worst performing is Danske invest Suomi Osake, which include the period that this paper is looking. On a three year cumulative return Evli Suomi select has performed profitwise 9,5% p.a., when looking this and comparing to other funds on a three year cumulative return period only Nordea Suomi and Seligson & Co Phoebus are closely challenging the performance by the results of 9% and 9,4% respectively. When looking the worst perfomer of three year period Danske invest Suomi Osake is the worst, but also Säästöpankki Kotimaa, POP Suomi and SEB Finlandia B are not far away.

When looking the table from the five year cumulative return the best performer as mentioned earlier was Evli Suomi Select B with the profit of 11,1% p.a. Again the closest to match the performance of this fund are Nordea Suomi and Seligson & CO Phoebus funds. In the longer period when looking the two funds that are behind have fallen more in regarding the previous shorter period. From this can be seen that they are still performing upwards but not as fast as the best fund, actually all the funds have performed better in the five year period than looking for the three year cumulative return. Danske invest is the lowest performer in five tear cumulative return the profit for it is 7,9% p.a. and it is lower almost by 0,8% than the next lowest profit per annum which is 8,7% from the SEB Finlandia B.

Table 3. Cumulative return for three and five years

Cumulative return		
Rahasto	3 y (% p.a.)	5 y (% p.a.)
Aktia Capital	6,1	9
Danske invest Suomi Osake	5,4	7,9
Evli Suomi Select B	9,5	11,1
Nordea Suomi	9	9,9
POP Suomi	5,8	8,8
SEB Finlandia B	5,9	8,7
Seligson & Co Phoebus	9,4	10,4
Säästöpankki Kotimaa	5,7	8,8

Source: Sijoitustutkimus Oy, 2019

From Table 4 can be seen the volatility of the funds in comparison, the volatility of these funds by the logic should be about the same since they are all belonging to the same risk category and are investing mainly to the Finnish stock market and other financial instruments in there. When observed the table of volatility it is clear that the statement above is relatively correct although it can be seen that in the years 2016 and 2018 the difference between the highest and lowest volatility is considerably larger in comparison to the years 2017 and 2018 where all the funds are less diversified in consideration of the volatility.

Table 4. Fund volatility between 2016 and 2019

Volatility				
Rahasto	2016	2017	2018	2019
Aktia Capital	18,2	9,6	13,6	13,7
Danske invest Suomi Osake	18,7	10,1	13,3	12,2
Evli Suomi Select B	18,5	9,9	13,9	12,7
Nordea Suomi	18,4	10,2	12,9	11,5
POP Suomi	18,2	9,6	13,6	13,6
SEB Finlandia B	19,7	10,8	15,3	13,1
Seligson & Co Phoebus	13,8	7,8	11	9,5
Säästöpankki Kotimaa	14,8	10	17,1	12,4

Source: Sijoitustutkimus Oy, 2019

It is to be noted that the lowest volatility in all years for the examined period belongs to Seligson & Co Phoebus fund, which also was the best performing fund when looked the cumulative returns of three and five year periods. When looked to the highest volatility for the period in obsevation

in the first two years SEB Finlandia B is the fund with the highest volatility and for the two later years the highest volatility was shared between Säästöpankki Kotimaa and Aktia Capital. This is also relevant since looking for the cumulative return table from the funds it can be seen that this particular fund was among the lowest performing funds.

The funds in comparison align mostly to the same amount of volatility in the given period, with the exception of Seligson & Co Phoebus which has significantly lower volatility than the other funds.

The Table 5 shows the Sharpe ratio for the funds. Again, it can be seen that the best risk-adjusted return in three out of four years belongs to Seligson & Co Phoebus funds. Only in 2018 Nordea Suomi had larger Sharpe ratio from the all funds. Although Nordea Suomi was slightly better in 2018 the difference in Sharpe ratio was only 0,2 against Seligson & Co Phoebus fund.

Table 5. Fund Sharpe ratios in between the years 2016 and 2019

Sharpe Ratio				
Rahasto	2016	2017	2018	2019
Aktia Capital	0,7	0,4	-0,6	2
Danske invest Suomi Osake	0,4	0,7	-0,5	1,6
Evli Suomi Select B	0,6	1,2	-0,7	1,8
Nordea Suomi	0,5	0,8	-0,3	2,2
POP Suomi	0,7	0,4	-0,6	1,9
SEB Finlandia B	0,7	0,9	-0,7	1,7
Seligson & Co Phoebus	1,1	1,2	-0,5	2,9
Säästöpankki Kotimaa	0,6	0,8	-0,5	1,8

Source: Sijoitustutkimus Oy, 2019

In the Table 6 are introduced the costs of the funds, since those can be measured it is worthwhile to take a look at these statistics aswell. As can be seen there are three different fees introduced in there, ongoing charges, transaction fee for purchase and selling. The ongoing charges are the annualised total expenses of the fund , they consist of the fund excluding trading expenses and performance fee. (Nordea, 2019) The other two fees that consider of purchasing and selling are simply the fees that is to be paid when making the purchase of that particular fund or selling expenses from it.

Table 6. Fees in percent, as of 31.12.2019

Funds	Ongoing charges %	Transaction fee for purchase	Transaction fee for sale
Aktia Capital	1,83	1	1
Danske invest Suomi Osake	1,9	1%/8EUR	1
Evli Suomi Select B	1,8	0	1
Nordea Suomi	1,4	0	1
POP Suomi	1,83	1	1
SEB Finlandia B	1,3	1	1
Seligson & Co Phoebus	0,75	0	0,0-1
Säästöpankki Kotimaa	1,81	1	1

Source: Sijoitustutkimus Oy, 2019

As can be seen from the Table 6, the funds have different costs and for example the ongoing costs vary from 0,75% up to 1,83%. The fees for purchases also vary with different fund providers. For some it is free of charge and for some it costs one percent or as in case of Danske invest Suomi Osake the price is one percent but at the maximum it will cost eight euros. From the sale of the funds everyone has charges for one percent of the selling amount, but Seligson & Co Phoebus is excpetion also in this case. In Seligson & Co Phoebus if sold before owning the investment for 360 days, after that time the sale of the proportion of fund is free of charge. There can be noted that Seligson & Co Phoebus is by far the cheapest fund out the investigated funds in order to looking the fees they have. Other funds do have pretty much the same fees in comparison to each others. What is notable is that only three out of eight funds provide purchase without charge, those funds are Seligson & Co Phoebus, Nordea Suomi and Evli Suomi Select B. This can be advantageous for them in marketing the funds against their competitors when doing sale of the fund to their customers.

Table 7. Annualized return

Fund	%
Aktia	13,6
Danske	10,9
Evli	17,0
Nordea	19,9
POP	13,3
SEB	15,9
Seligson & Co	26,0
Säästöpankki	12,5
Index	29,6

Source: author's own calculations

The annualized return shows that for the period investigated Seligson & Co Phoebus was clearly the best performing fund in the years 2016 to 2019. No other fund could even reach over 20%, but Seligson & Co Phoebus reached 26,0% annualized return and was very close to the benchmark index which recorded 29,6% annualized in the period studied.

3.2. Discussion

When looking back to the year of 2016 it can be wrapped into three different major events that has affected the markets globally around the world. Those events are the vote for Brexit, Election of the Donald J. Trump for the president of the United States of America and oil price. In the beginning of the year the markets slumped due to the fears of decline in the China's economy. Other significant event from the early 2016 was the oil price which was low for 27,10 US dollars. After these events when the markets were recovering the dip in the summer of 2016 there was another slump in the form of Brexit vote. It was a shock to the markets that the people of United Kingdom decided to vote for leaving the European Union. This event created some uncertainty to the markets as also British pound declined due these news. (Mackenzie, M,. Murtaugh, J., 2019)

Although the paper is not looking global funds these happenings are relevant, because the markets are connected to each others and Finnish market are a small frontier market, which tends to react the news received from around the world. When looking the performance of the funds compared

in this paper in the year 2016 it can be seen that the Seligson & Co Phoebus outperformed the index, which reached the 13,3% profit for the year while POP Suomi and Säästöpankki Kotimaa equalled the index and other funds lost to the index. Despite of the fact that the year had some events that affected the market a lot it can be said from the performance that all the portfolio managers handled their job fairly professionally and managed to exploit the markets in order to gain good profit for the year. (Sijoitustutkimus rahastoraportti, 2016)

In the year 2017 there were couple signifigant effects that affected to the financial markets like the French General election in April between Marine Le Pen and Emmanuel Macron. The markets were scared that the victory of Le Pen could lead to another exit from the European Union like the year before when Brexit happened in the United Kingdom. In the end the scare was just a small one when Macron was able to win Le pen in the second round of the election and it did not drive the economy to the ucertainty. Also in the year 2017 the terrorist organization ISIS made several attacks around the world, which led to a fear for the public and naturally affected also to the financial markets creating uncertainty of the future and how the ISIS would be dealt. Another significant event that created some uncertainty to the markets was also related to Europe and more closely to Spain was when Catalonia General vote in December, before that in October occurred the inpendence voting of Catalonia. The reason why this was significant is that it is important and big part of Spanish economy and it could create a severe situation inside the Spain and hit its economy, which also naturally affects to the economy of European Union and therefore it can affect the whole world's markets. (Mason, 2017)

The Year 2018 was a bad year for the investors, in fact it was the worst year after the crisis of 2008 which shocked the markets. Before this year it was good years in the stock exchange, but the year 2018 showed that growth is not eternal. (Dunkley, Bullock, 2018)

When looking back the year 2019 it was very high-yielding for the investors, it was actually the best year since the year 2009 after the economic crisis of 2008. Although the global economy growth was slower and declined more than was expected to the level of 3% shares rose up. Probably the biggest reasons to this was the monetary policy that was introduced by the central banks as they were still reviving the economy and also Unites States and China were able to solve their differences according to the tariffs and create a some sort of truce. USA and China agreed to ease on the planned tariffs and this reliefed the investors. Although the equites rose, despite of the slowing economic growth is and interesting fact. It could be a reason of risen appreciation of the

firms although the return of the companies declined or stayed the same as previous years. (Nummelin, 2020)

The investigation of the funds investing in Finnish market was not especially thorough and it can be considered as a fairly basic job but it was able to provide some clear results of the performance of the selected funds. The best performer was undoubtly the Seligson & Co Phoebus fund which managed to create good results throughout the period investigated. When looking in the results it is worthwhile to notice that the investor really should look into the offered products inside the markets since the differences in the performance can vary a lot. Eventhough the main focus of all funds investigated in this paper is the Finnish market the differences between the funds shows that the porftoflio managers have different visions and predictions of the behavior of market.

When looking back of the task it can be seen that the difference between the majority of the funds is not very significant, but from the each end of the scope the best and worst differ from the median quite significantly. All in all by looking these historical measurements it can be evaluated the historical performance and it can be used as separating the funds from each other. Adding a disclaimer that the historical performance does not guarantee future success. Yet by looking the historical performance can be evaluated how the portfolio managers have handled previous situations in the markets and it can give confidence that they will continue to perform also in the future.There are existing studies about the future performance of the portfolios when the portfolio manager is also the owner. According to Khorana et al. 2007 the performance is better when the portfolio manager is also owning the product that he or she manages, although they found out in the research that the average ownership is not large and it is only around 0,04%. The study of Khorana et al. shows that the more the portfolio manager owns the better the fund tend to performance. (Khorana et al., 2007)
Although when Kumlin and Puttonen did their study about the Finnish market they found out the opposite that there is no relationship between the ownership of the fund and its performance or when changing the variables the ownership results into inferior performance. Kumlin and puttonen suggests that these findings made in the United States cannot automatically be applied to another markets.(Kumlin & Puttonen, 2009)

By looking up the tables 2, 4,5 and 7 we can see from the figures that there is a correlation between the volatility, sharpe ratio and return. When looking the table 2 and 3 The correlation between the sharpe ratio and return can be seen clearly, when the fund that created the best return also had the

highest figure from the sharpe ratio in three out of four years. The years where the best performer in return also had the highest sharpe ratio were 2016, 2017 and 2019.

By looking up the tables 4, 5 and 7 we can see that the performance, Sharpe ratio and volatility are in correlation and it ahows that the best performing fund has the lowest volatility, highest or one of the highest sharpe ratio and also annualized return for the period from 2016 to 2019 is the highest. This is not a new fact that low volatility leads to better earnings, according Maguire et al. 2017 low volatility portfolios can outperform the indexes, this is called low volatility anomaly. Although this has not happened in this study it can most certainly be possible.

The best performing fund was the Seligson and Co Phoebus for this period, it had the best annualized return for the studied period, lowest volatility for the the period and it had also the highest sharpe ratio on three out of the four years studied. It can be argued whether the fund can be compared to the other funds, since it has leanier policy in trading stocks outside the Finnish market and can be said it might have some edge in that. If we exclude the Seligson & Co Phoebus from the study and look two best performing funds after it we can see the same sort of behavior with Nordea Suomi and and Evli Suomi select B. These two funds also have in most years the highest sharpe ratio and lowest volatility, which combines with the previous studies of low volatility anomaly.

CONCLUSION

The aim of the paper was to investigate the funds investing in Finnish market and determine the best performing fund by comparing the different measures of funds during the evaluation period of 2016 to 2019. Those measures used in this paper were, yearly return, cumulative return, annualized return from 2016 to 2019, Sharpe ratio, volatility and fees of the funds. The funds were in total 8 and all of them were following at the time of the studied period the benchmark index of OMX Helsinki Cap GI index.

The main results found in this study by using the measures and sample was that Seligson & Co Phoebus was the best performing fund out from the sample picked. It can be argued whether the result is fair, since the Seligson & Co fund have more tolerant investing strategy than the other funds studied. For the results received if the Seligson & Co would be exclded from the study then the best fund would be Nordea Suomi, which has the same sort of strategy as the rest of the funds excluding the Seligson & Co Phoebus. Notable was also that when studied the funds there was found a correlation between the Sharpe ratio, volatility and the fund performance, which was supported by the earlier studies of mutual funds. The earlier studies show that low volatility leads to higher return, and the funds performing the best shared in common lower volatility, altough not so significant in all years, higher Sharpe ratio and better returns. Another result was that Finnish funds have outperformed the benchmark index and have therefore created abnormal returns to the investors. At the earlier studies presented also in this paper it can be seen that it is in line with the previous studies that in the smaller frontier markets it is not unnormal that the funds outperform the respective benchmark index.

The applicability of this paper is limited due to varied reasons. First of all the sample of data is considered to be limited and it could give better results when the studied sample was to be larger. Also the methods can be questioned and argued whether this paper should also have considered of using regression analysis in order to achieve the results wanted. Other change that could be considered would have been leaving the Seligson & Co fund totally out from the sample, because of the rules of the fund that it follow the same benchmark index of OMX Helsinki Cap GI only

with 60% weight whereas the other funds are more commit more to the benchmark index. It was a decision to be made and it was still chosen, because it had performed so well in comparison with the index and created a good aspect of a fund beating the benchmark index as well as showing the correlation between the low volatility, Sharpe ratio and performance of the fund.

For the further study on the subject there could be added another region from the Nordics and comparison of the results whether they are in line with each other or is Finnish mutual fund market exceptional in some way. Also another further research could be added also passively managed funds and compare actively managed with them and make analysis wich one of them is more suitable for investors in order to gain maximum return.

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