

Chapter 8

The Measuring of Performance and Profitability of Mutual and Profitability Funds Collective Investment Funds in Securities

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ABSTRACT

The purpose of this chapter is to study the behaviour and measure the performance of different UCITS over a period of time. For this purpose, an analysis was carried out using several measures taking into account systematic, specific, and total risk. This led to a modelling of the behaviour of these UCITS, in addition to a description of the relationships linking these behaviours and that of the market index. The aim of this work is to better orient Moroccan investors in their choice of collective investment funds.

INTRODUCTION

UCITS (Undertakings for the Collective Investment in Transferable Securities), plays a vital role in the financial industry for several compelling reasons. First and foremost, UCITS provides a well-established and regulated framework for cross-border investment within the world. This framework allows fund managers to offer investment products to investors across different member states, promoting the free movement of capital and fostering economic integration. The harmonized regulations and standards provided by UCITS enhance investor protection and ensure a level playing field for market participants. Additionally, UCITS funds offer a wide range of investment opportunities, providing investors with access to a diversified portfolio of assets. The UCITS framework enables fund managers to invest in various

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asset classes, including equities, bonds, money market instruments, and derivatives, subject to specific investment restrictions and risk management guidelines. This flexibility allows investors to tailor their portfolios to their risk preferences and investment goals.

In essence, by enabling cross-border investment, offering a variety of investment choices, ensuring transparency and investor protection, and promoting market trust, UCITS plays a crucial role in the financial sector. Its importance lies in fostering the expansion and stability of the financial sector while protecting investors' interests. The main objective of every company is to create value, which in most cases translates into a cash surplus, and to optimize its profitability, the company must invest its cash; Investing in UCITS is the best solution for value of the cash flow.

Morocco has not been an exception of this invest tool, UCITS were introduced for the first time in 1993 as part of the process of modernizing the financial markets in Morocco. Their objective is to liberalize the national economy by broadening the financing possibilities for companies and creating new investment products for savers. In essence, they were introduced in 1993 by the Dahir bearing law No. 1-93-213 of 21 September 1993, although they were not marketed until 1995.

Indeed, UCITS allow savers to access the financial market under the best conditions of security and profitability. They also have the advantage of being liquid and performing better over the long term than traditional investment products.

In the theoretical register, many theorists have been interested in portfolio management and the development of the various attributes related to it. Certainly, portfolio management theories provide frameworks and principles for effectively managing investment portfolios such as:

Modern Portfolio Theory (MPT), developed by Harry Markowitz, MPT emphasizes diversification to optimize risk and return. It suggests that by combining assets with varying levels of risk, investors can achieve an optimal portfolio with the highest expected return for a given level of risk. Then there is Capital Asset Pricing Model (CAPM), developed by William Sharpe, which proposes that an investment's expected return is based on its systematic risk, measured by beta. It provides a framework to estimate the expected return on an asset based on its risk relative to the market.

Arbitrage Pricing Theory (APT), formulated by Stephen Ross, posits that an asset's expected return is influenced by multiple risk factors. It suggests that asset prices adjust based on the relationships between these factors, allowing for potential arbitrage opportunities.

Efficient Market Hypothesis (EMH), EMH suggests that financial markets are efficient, meaning that asset prices already reflect all available information. It challenges the notion of consistently beating the market and advocates for passive investment strategies such as index funds.

Behavioral Finance, incorporates psychological factors into investment decision-making. It recognizes that investor behavior is influenced by biases, emotions, and cognitive errors, which can lead to irrational investment decisions. This theory seeks to understand and account for these behavioral biases in portfolio management.

Factor Investing focuses on identifying and systematically exploiting specific risk factors, such as value, momentum, size, or quality, that have historically generated excess returns. It aims to construct portfolios that have exposure to these factors to achieve enhanced risk-adjusted returns.

The Black-Litterman model combines views from investors with market equilibrium assumptions to improve portfolio allocation decisions. It incorporates subjective investor views and adjusts market expectations based on those views.

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