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**1. Stock Markets: Ukraine and the World**

In the 3rd quarter of 2017, the **world's leading stock markets** showed mainly upward dynamics, although in July-August increased volatility and typical downturns at the end of summer caused a certain downward pressure. In September, positive attitude of investors, who pushed stock indices in the world to new historical highs, prevailed.

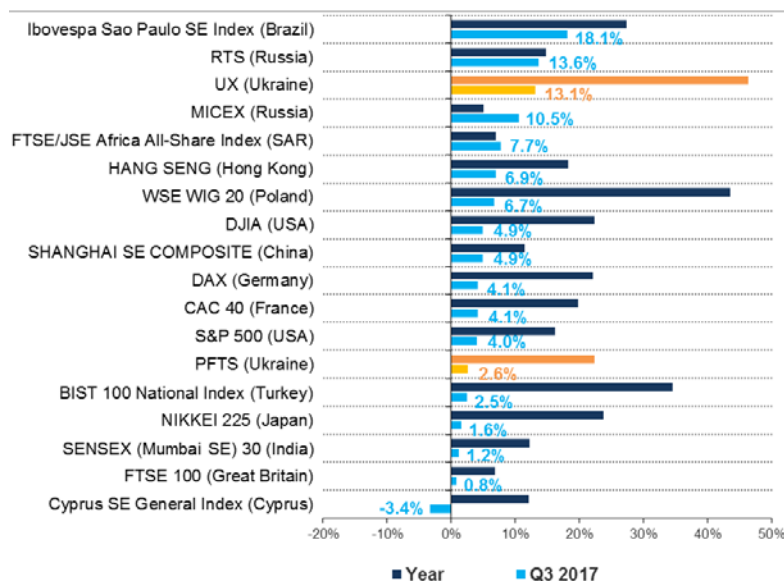
Market players' optimism was supported by lower ratings of global geopolitical risks, relatively positive results of parliamentary elections in Germany, and updated macroeconomic indicators that showed an acceleration in the growth of the EU and of euro zone area (up to 2.4% and 2.3%, respectively, according to the Q2 2017 data).

As a result, the key continental EU's markets - *France and Germany* - showed strong growth in the third quarter - by 4.1% (after a maximum of 0.1% in the 2<sup>nd</sup> one).

By annual yield, they were at the level *with the USA ones*, which added 4-4.9% in the 3rd quarter against the backdrop of maintaining speculation regarding the Trump administration's incentive policy, in particular, the planned changes in the tax regime. Since the beginning of 2017, indicators of leading markets *in Europe and the USA* have risen by 10-13%, for a year - by 16-22%.

*British equities* continued moderate movement throughout the whole quarter, in conditions of exacerbating domestic political contradictions and increasing tension with the EU in the context of Brexit. Finally, the key UK index rose by 0.8% in the 3-rd quarter.

*Japanese equities*, in conditions of preparations for early parliamentary elections and after strong growth in previous quarters, grew by 1.6% in Q3 2017, still outperforming western markets by annual results (+24%, Chart 1, Table 1.).



*Chart 1. Dynamics of World Stock Indices in Q3 2017*

*Table 1. Dynamics of World Stock Indices in Q3 2017\**

Indexes	30.09.2016	30.06.2017	30.09.2017	Q3 2017	Year
Ibovespa Sao Paulo SE Index (Brazil)	58 367.05	62 899.97	74 293.51	18.1%	27.3%
RTS (Russia)	990.88	1 000.96	1 136.75	13.6%	14.7%
UX (Ukraine)	810.13	1 047.78	1 185.31	13.1%	46.3%
MICEX (Russia)	1 978.00	1 879.50	2 077.19	10.5%	5.0%
FTSE/JSE Africa All-Share Index (SAR)	51 949.83	51 611.01	55 579.92	7.7%	7.0%
HANG SENG (Hong Kong)	23 297.15	25 764.58	27 554.30	6.9%	18.3%
WSE WIG 20 (Poland)	1 709.51	2 299.80	2 453.46	6.7%	43.5%
DJIA (USA)	18 308.15	21 349.63	22 405.09	4.9%	22.4%
SHANGHAI SE COMPOSITE (China)	3 004.70	3 192.43	3 348.94	4.9%	11.5%
DAX (Germany)	10 511.02	12 325.12	12 828.86	4.1%	22.1%
CAC 40 (France)	4 448.26	5 120.68	5 329.81	4.1%	19.8%
S&P 500 (USA)	2 168.27	2 423.41	2 519.36	4.0%	16.2%
PFTS (Ukraine)	239.87	286.24	293.56	2.6%	22.4%
BIST 100 National Index (Turkey)	76 488.38	100 440.40	102 907.70	2.5%	34.5%
NIKKEI 225 (Japan)	16 449.84	20 033.43	20 356.28	1.6%	23.7%
SENSEX (Mumbai SE) 30 (India)	27 865.96	30 921.61	31 283.72	1.2%	12.3%
FTSE 100 (Great Britain)	6 899.33	7 312.72	7 372.76	0.8%	6.9%
Cyprus SE General Index (Cyprus)	66.16	76.71	74.14	-3.4%	12.1%

\* Based on data of Exchanges and Bloomberg Agency.

Among the **key emerging markets**, the *Chinese one* returned to moderate growth in the third quarter - at the same level with European and American markets (+4.9% by the Shanghai Stock Exchange index, after -1% in Q2 2017). However, the annual indicator for equities of continental China was twice lower than for developed markets (+11.5%).

For the first time since the beginning of 2017, *Turkey* gave way in the pace of the equity market's growth (+2.5%) to almost all BRICS countries (except *India* with +1.2%). *Brazil* became the leader here (+18.1%, after (-3.2%)), while *Cypriot equities*, which had double-digit growth in Q2 2017, lost 3.4% in the third quarter.

*Russian equities* drastically changed the dynamics and starting from the outsiders of the previous quarter became leaders by the results of Q3 2017 (+10.5%, after -13.6%). For 9 months they still recorded losses, and annual results were raised to +5-15%.

*Polish market* was the leader by annual results (+43.5%), it showed the result, which was close to the Ukrainian one during this time.

In the 3rd quarter of 2017, **the Ukrainian stock market** mostly held its uptrend, which began in late May. June witnessed rapid growth (almost by 7%), which was changed by lateral movement in August-September, but in the last week of the quarter the market has skyrocketed by almost another 6%. Thus, according to the results of the 3rd quarter, **the Ukrainian Exchange (UX) index added 13.1%** (after +0.5% in the 2nd quarter) and appeared among the leaders of growth for this period. **PFTS index**, in contrast to UX

one and previous dynamics, somewhat weakened quarterly growth from +2.8% to **+2.6%** in July-September.

Composition of the UX index's index basket remained unchanged and consisted of 5 equities (3 energy companies, one - machine-building enterprise and one bank). The PFTS index's basket also invariably had 9 equities (all five components of the UX index, two others - electricity companies, 1 machine building enterprise and 1 telecommunication company).

Optimism of market's participants in July-September was supported by a number of regulatory initiatives from the regulators of the Ukrainian financial sector and market's participants themselves, and also by the already introduced changes, which potentially would facilitate the attraction of investors to the market.

During the quarter, the National Bank of Ukraine continued to take measures to increase the efficiency of use of the discount rate, which it remained unchanged during this period at the level of 12.5%, as well as gradually removed administrative restrictions in the foreign exchange market and for capital's movement to/from Ukraine, which in the long run will contribute to the expansion of investment opportunities for professional participants of the Ukrainian stock market and investors. In particular, the NBU has decided *to change the procedure for granting individual currency licenses for investments abroad*, which abolished the need to obtain these licenses for banks in transactions of selling/purchasing of eurobonds with a high credit rating with non-residents. It also approved *amendments to its regulatory acts, which facilitated conditions for*

attracting foreign currency loans from international financial institutions by residents of Ukraine, eliminating the need to register such loans in the NBU and obtain a corresponding individual license.

Besides it, in August, the NBU proposed a bill "On Currency", designed to lay the foundations and establish the principles for transition to full liberalization of the domestic currency market and opening of Ukraine to the international capital markets (it is expected that it will come into force in May 2018, except for the provisions regarding BEPS, which have to be approved later by a separate act).

In September the Parliament adopted the Law of Ukraine on amendments to the Tax Code on release from taxation of income, which was received by non-resident investors on state or municipal bonds of Ukraine, which immediately came into force.

Among *the key bills* submitted to the Parliament or being in the preliminary stages of preparation during the 3rd quarter of 2017, and the adoption of which is awaited by the market, there were also draft Laws of Ukraine "On Amendments to Some Legislative Acts of Ukraine Regarding the Introduction of a Cumulative System of Compulsory State Pension Insurance" No. 6677 dated July 10, 2017, and "On Amendments to the Tax Code of Ukraine Regarding Taxation of Withdrawn Capital" (which was published and supported by more than 50 business associations, including UAIB, in July and had been agreed with the government, but was not yet submitted for consideration by the Verkhovna Rada).

The stock market regulator (NCSSMF) in the 3rd quarter also continued to prepare draft laws and regulations for implementation of the Association Agreement with the EU in the area of its competence, as well as to amend regulatory acts on activities of stock exchanges, depositaries, asset management companies and institutional investors. Thus, the Commission has developed changes to the licensing conditions for AMC, prudential supervision of professional participants and circulation of CIIs' securities (mainly clarification and/or increase of requirements).

In the 3rd quarter, the active process of reducing the number of public joint stock companies (JSCs) through their reorganization in private ones took place, the impetus for which was, among other things, the decision of the NCSSMF in the year of 2015 on increasing requirements for issuers for passage the listing on the stock exchange, changes in the law, which came into force in May of 2016, in accordance to which all JSP were obliged to go through the procedure of inclusion of

equities into the exchange register and staying in it at least in one stock exchange, and also recent changes in the legislation concerning protection of the investors' rights regarding requirements for JSC. This led to a very limited number of corporate securities in listing of stock exchanges. So, during July-September, the process of preparing amendments to the Regulation on the operation of stock exchanges, in which UAIB was actively involved, was initiated in order to reduce the threshold for passage the listing.

With regard to macroeconomic and monetary conditions at this time in Ukraine, inflation in July slowed significantly compared to June and was moderate at the level of 15.9% by annual indicator, although it accelerated to 16.4% in September, in particular against the backdrop of consumer demand's revival. Estimation of the annual GDP growth for the 3rd quarter was adjusted to 2.3% (from the previously announced 2.4%), Ukraine's balance of payments (current account) for 9 months of 2017 was calculated with a small deficit (-USD 0.2 bln.), available income (after taxation) of population per capita increased by 16.3% by annual result, according to the latest data for the 2nd quarter, and direct foreign investments in joint-stock increased by 4.4% during this period.

Recovery of the market at the end of September, after the August lull, was caused by successful return of Ukraine to the international market of capital: for the first time since the annexation of Crimea in 2014, government Eurobonds were placed in the amount of USD 3 bln. (the largest amount in history). Thus, the government has lowered the peak of financial burden that would have to take place in 2019, and a favorable situation on foreign markets made it possible to cheapen the cost of new borrowings, for the first time with a maturity of 15 years, to 7.375%, which was lower than the rate for securities that had been already in circulation (7.75%). Net volume of attracted capital - after deducting the cost of redemption - by these bonds amounted to about USD 1 bln.

**Volume of Ukrainian stock market in the 3rd quarter of 2017 continued to decline and amounted to UAH 48 bln.** Decrease of the number of securities in the stock exchanges in July-September accelerated to 19.8% for the quarter (for the year to -46.4%). At that, the dynamics of listing's narrowing (the 1st and the 2nd levels) slowed somewhat - to -2.6% (for the year - to -5.7%).

The quarterly decrease of listing was again mainly due to *government bonds (OVDP)*, accounting for

almost 89% of the total listing, and the number of which decreased by 2.2% (for the year - by 5.7%).

Also, the number of listed *corporate bonds* decreased - by 13.0% for the quarter (after +4.5% for Q2 2017), and its annual decrease slowed down to -20.0% (from -41.0%).

There were 6 *equities* in two levels of listing, the same as in the beginning of the third quarter, and for the year their number decreased by one third (slowing down compared to a double decline in the 2-nd quarter).

There were no *municipal bonds* in registers (listing) and stock exchanges' lists during the 3<sup>rd</sup> quarter of 2017, the same as before in the course of the year.

**The aggregate quarterly trading volume in all exchanges in July-September increased by 18.9%** (after falling by 31.2% in April-June). Transactions with *government bonds (OVDP)* accounted for almost 87% of the total volume, so their increase by 10.1% in the 3<sup>rd</sup> quarter (after -33.5% in Q2 2017) was precisely the factor, which had a major impact on the indicated growth of the aggregate value of all transactions in the exchanges during this time.

At the same time, the volume of deals with *equities* has increased much more actively in relative terms - almost by 9 times (after -3.1% in the 2<sup>nd</sup> quarter). Also, the volume of trading with *corporate bonds* has grown significantly - by 86.7% (after +61.8%), while with *derivatives* - it fell by 19.7% (after +54.0%).

**The annual volume of trades in stock exchanges decreased by 18.8%** by the results of the 3-<sup>rd</sup> quarter. Reduction of deals with *OVDPs* by 23.9% (after -35.1% in the 2<sup>nd</sup> quarter) was again the key factor here. Also, the volume of deals with *corporate bonds* fell for the year (-40.9%).

At the same time, the annual decline was narrowed somewhat by the upward dynamics of trading with *equities*, which held for the second quarter in a row and accelerated significantly: the value of transactions with these instruments in the third quarter increased by 5-fold for the year (after +4.1% in the 2<sup>nd</sup> quarter).

Growth rates of trading with *derivatives* declined slightly over the year, but remained significant (+130.7%, after +167.2% in the 2<sup>nd</sup> quarter, Table 2).

*Table 2. Dynamics of the Ukrainian Stock Exchange Market in Q3 2017*

Indicator / Date (time period)	30.09.2016 (Q3 2016)	30.06.2017 (Q2 2017)	30.09.2017 (Q3 2017)	Change for Q3 2017	Annual Change
<b>Number of Securities in the listing of stock exchanges including:</b>	<b>1800</b>	<b>1202</b>	<b>964</b>	<b>-19.8%</b>	<b>-46.4%</b>
<b>Number of securities in the registers (listing) of stock exchanges, including:</b>	<b>314</b>	<b>304</b>	<b>296</b>	<b>-2.6%</b>	<b>-5.7%</b>
state bonds (OVDP)	279	269	263	-2.2%	-5.7%
equities*	9	6	6	0.0%	-33.3%
corporate bonds	25	23	20	-13.0%	-20.0%
municipal bonds	1	0	0	x	x
NBU deposit certificates	0	0	0	x	x
<b>Trading volume on the stock exchanges (total) per year, UAH mln, including:</b>	<b>59 167.8</b>	<b>40 416.4</b>	<b>48 058.4</b>	<b>18.9%</b>	<b>-18.8%</b>
state bonds (OVDP)	54 681.8	37 813.9	41 616.6	10.1%	-23.9%
equities	593.6	412.1	3 576.6	768.0%	502.5%
corporate bonds	3 274.7	1 037.3	1 936.2	86.7%	-40.9%
municipal bonds	0.0	0.0	0.0	x	x
NBU deposit certificates	0.0	0.0	0.0	x	x
investment certificates	26.4	13.8	13.9	0.9%	-47.3%
derivatives (without state derivatives)	396.7	1 139.8	915.0	-19.7%	130.7%

Sources: data on securities in the stock exchanges lists and on volumes of trading - NSSMC, stock exchanges; calculations - UAIB.

\* Including MHP S.A. Depository Receipts. Excluding CIF equities and investment certificates (as at 30.09.2017 there were 7 in the 2-nd level of SEs' listing - equities of 6 CIF and investment certificates of one UIF).

## **2. Number of AMC and CII**

In the 3<sup>rd</sup> quarter of 2017, the number of asset management companies increased for the second time in a row, though insignificantly - from 299 to 300. At the same time, according to the UAIB, during the July-September 3 AMCs were closed down.

During the quarter, 20 new CIIs were registered (after 16 in Q2 2017) - all of them - venture funds, 14 of which were corporate (CIF), the remaining 6 – unit (UIF) ones. Taking into

account the funds which were closed during the quarter, as at 30.09.2017, the total number of registered CII increased to 1,676.

This dynamics of the number of CII, against the background of almost stable number of AMC by quarterly results, maintained the trend of gradual increase of concentration in the CII asset management market: in September 2017, one AMC had an average of 5.6 funds (the indicator returned to the level of March, Chart 2).

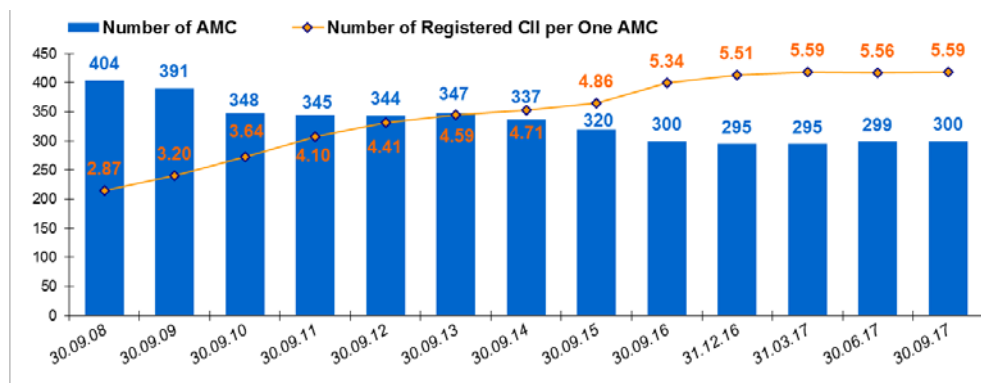


Chart 2. Dynamics of the Number of AMC and CII per One AMC in Q3 2016-2017

The number of CII that have reached the minimum asset ratio for the first time since the 3rd quarter of 2016 decreased, but insignificantly - from 1,157 to 1,153.

Out of 19 of the new CII, which were formed during the 3<sup>rd</sup> quarter 2017, 7 were venture CIFs, that is, they reached the norm simultaneously with the state registration of the fund, 11 - venture UIF, one - qualified UIF (the first since the entry into force of the new edition of the Law " On CII" in 2014).

The annual upward dynamics of the number of "recognized" CIIs has remained: since September 2016, they have become 26 more (+2.3%, after +2.0% in the 2nd quarter). Since the beginning of the year, their number has increased by 23 (+2.0%).

According to the results of Q3 2017, in addition to the appearance of the first qualified UIF, the number of formed funds increased also among closed-end non-diversified UIF (+2, +6.9%) and venture CIF (+1, +0.4%).

The share of the largest sector - venture UIF - decreased somewhat against the background of the closure of 8 of such CIIs, but the sector held 2/3 of the market by the number of funds (66.3%, after 66.8% in the 2nd quarter). At the end of September, there were 765 of such formed and operating funds. Total number of venture CII was 1,021, and their weight in the 3rd quarter fell for the first time - from 88.9% to 88.6% (Chart 3).

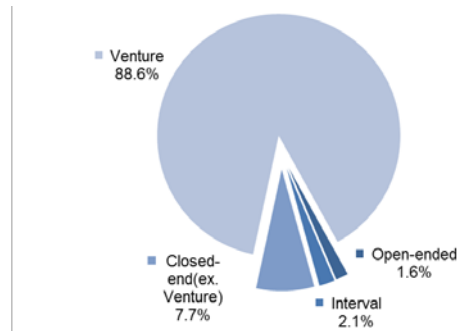


Chart 3. CII that Reached the Standards by Types of Funds as at 30.09.2017

The number of active open-ended CIIs, as well as of other diversified and specialized UIFs, remained unchanged for the quarter. The total number of "recognized" and acting open-ended CIIs remained 19 at the end of June (Table 3).

During the year, the number of funds fell somewhat among open-ended, venture and closed-end diversified CIF, and most of all among closed-end diversified UIF (-33.3%). At the same time, the number of recognized closed-end non-diversified UIF (+10.7%) and venture CIF (+16.9%) increased.

Table 3. Dynamics of Number of CII that Have Reached Compliance with Standards, by Types and Legal Forms of Funds

Date/Period	Total	UIF*									CIF*		
		O*	Os*	I*	Is*	CD*	CNN*	Cs*	Cq*	CNV*	I*	CNN*	CNV*
30.09.2016	1127	15	5	21	3	6	28	1	0	771	0	58	219
31.12.2016	1130	15	5	21	3	4	28	1	0	765	0	55	233
31.03.2017	1143	14	5	21	3	4	28	1	0	768	0	55	244
30.06.2017	1157	14	5	21	3	4	29	1	0	773	0	52	255
30.09.2017	1153	14	5	21	3	4	31	1	1	765	0	52	256
Q3 2017 change	-4	0	0	0	0	0	2	0	1	-8	0	0	1
	-0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	6.9%	0.0%	-	-1.0%	-	0.0%	0.4%
YTD 2017 change	23	-1	0	0	0	0	3	0	1	0	0	-3	23
	2.0%	-6.7%	0.0%	0.0%	0.0%	0.0%	10.7%	0.0%	-	0.0%	-	-5.5%	9.9%
Annual change	26	-1	0	0	0	-2	3	0	1	-6	0	-6	37
	2.3%	-6.7%	0.0%	0.0%	0.0%	-33.3%	10.7%	0.0%	-	-0.8%	-	-10.3%	16.9%

\*UIF - Unit Investment Funds, CIF - Corporate Investment Funds; O – open-ended diversified CII, Os – open-ended specialized CII, I – interval diversified, Is - interval specialized, CD – closed-end diversified, CNN - closed-end non-diversified non-venture, Cs – closed-end specialized, Cq – closed-end qualified, CNV-closed-end non-diversified venture CII

*Table 4. CII with Public Issue*

CII Type and Class	Number of Funds			
	30.09.2016	31.12.2016	30.06.2017	30.09.2017
<b>Open-ended (total), including:</b>	<b>20</b>	<b>19</b>	<b>19</b>	<b>19</b>
diversified	15	14	14	14
specialized	5	5	5	5
<b>Interval (total), including:</b>	<b>23</b>	<b>23</b>	<b>23</b>	<b>23</b>
diversified	20	20	20	20
specialized	3	3	3	3
<b>Closed-end (total), including:</b>	<b>50</b>	<b>50</b>	<b>51</b>	<b>52</b>
diversified	3	3	3	3
non-diversified	46	46	47	48
specialized	1	1	1	1
<b>Total</b>	<b>93</b>	<b>92</b>	<b>93</b>	<b>94</b>

The number of CII that have not yet reached the norm for minimum size of assets, among all registered funds in AMC management remained unchanged for the third consecutive quarter (62, 5.1% of all CII under management).

According to UAIB data, 60 funds in the 3-rd quarter were still *in the process of liquidation* or had just started it (5.2% of all recognized and acting CII, after 6.1% in the second quarter). Among them there were one open-ended, 3 interval and two closed-end diversified UIF, 3 closed-end non-diversified UIF and 5 of the same CIF, 44 venture UIF and 2 CIF.

Consequently, in view of almost the same number of funds, which were ready to enter the market in the third quarter, and those that were in the process of closing, the dynamics of the total number of recognized CIIs in the coming quarters will remain moderate, without significant changes.

**Number of CII with public issue (offer)** in the 3rd quarter of 2017 for the second time in a row increased by another one: one closed-end qualified UIF, which was set up in November 2016, has reached the standards. So, at the end of September, the number of funds in the sector was already 94 (Table 4).

The number of AMCs managing such CII grew by one to 39, while in the sector of open-ended CII it remained at the level of 11.

**There were 36 diversified and specialized CII with public issue** in the 3rd quarter (Table 5).

Number of *equity funds* fell by one (interval one) - they included 3 open-ended and 2 interval CII.

There were 3 *bond funds* - one open-ended and two interval ones, 26 - *mixed funds*, including 14 open-ended and 12 interval CII.

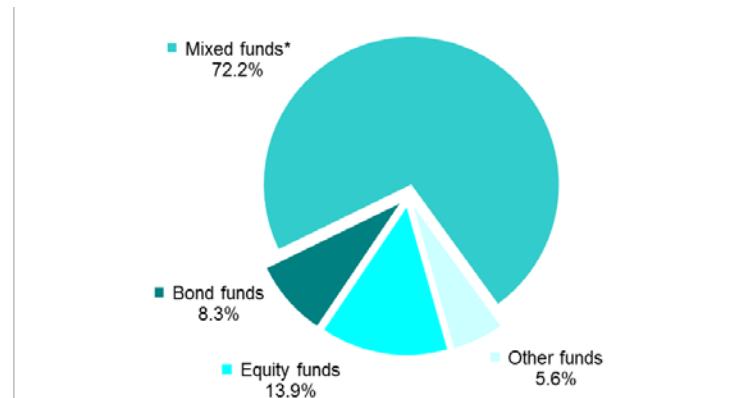
*Table 5. Diversified CII with Public Issue*

Date/Period	Total	Equity funds	Bond funds	Mixed funds*	Money market funds	Other funds
30.09.2016	33	4	5	14	0	10
31.12.2016	34	4	2	27	0	1
31.03.2017	36	8	5	16	0	7
30.06.2017	38	6	6	19	0	7
30.09.2017	36	5	3	26	0	2
Q3 2017 change	-2	-1	-3	7	0	-5
	-5.3%	-16.7%	-50.0%	36.8%	-	-71.4%
YTD 2017 change	0	-3	-2	10	0	-5
	0.0%	-37.5%	-40.0%	62.5%	-	-71.4%
Annual change	3	1	-2	12	0	-8
	9.1%	25.0%	-40.0%	85.7%	-	-80.0%

\* Funds that have equities and bonds, and cash in their portfolios.

“Other funds”, according to the classification based on the structure of assets <sup>1</sup>, were one closed-end and one interval CII.

*Mixed funds* remained the largest category by asset classes (Chart 4).



\* Funds that have equities and bonds, and cash in their portfolios. See more on Fund Types: <http://www.uaib.com.ua/rankings/byclass.html>

*Chart 4. Diversified CII with Public Issue, by Classes of Funds, as at 30.09.2017*

<sup>1</sup>See [Рейтинги «ІСІ \(диверсифіковані публічні\) - за класами фондів»](#) and [Методику реєстрування КУА та ІСІ за результатами їхньої діяльності](#) на UAIB website: <http://www.uaib.com.ua>.

### **3. Regional Distribution of AMC and CII**

In Kyiv and the metropolitan area, in the 3rd quarter of 2017, the number of active AMCs grew further, though slower than in Q2 2017 - by one company, to 218 (Chart 5). At the same time, two AMC here were closed.

In terms of unchanged total number of companies in all other regions of Ukraine, the market share of Kyiv by the number of professional participants increased from 72.6% to 72.7% for this quarter.

Among other regions, the numbers of companies in Odessa and Dnipro became less by one in each of them, and in Lviv it became two more.

Totally, in the TOP-5 regions by the number of AMC, by the end of September 2017, there were active: 19 companies in Dnipropetrovsk region and 19 in Kharkiv region, 9 in Lviv region, and 8 in Odessa region. In the rest of the regions there were totally 27 AMCs, or 9.0% of the market.

The number of CII under management in Kyiv and its region in the 3rd quarter of 2017 changed the dynamics for the downward trend - the number of funds decreased here by 13 (-1.5%, after +1.6% in the Q2 2017), while in Ukraine as a whole - by 20 (-1.6%). Finally, Kyiv's weight by this indicator continued to grow - from 72.8% to 72.9% (Chart 6).

The share of Lviv increased in the third quarter the most most - from 4.1% to almost 4.3%, although other leading regions also increased their weights. This happened against the backdrop of reduction in the number of CII in the areas with smaller numbers of funds, the aggregate share of which fell from 7.2% to 6.8%. Dnipro, where the number of CII under management became less by one, added in weight from 7.6% to more than 7.8%. A similar situation was also in Kharkiv, whose share by the number of CII increased insignificantly in the range of 5.9%.

Thus, the regional concentration of AMC and CII in favor of the metropolitan area increased for the second consecutive quarter.

In the distribution of CIIs' assets under management by regions in the 3rd quarter concentration increased in some of the leading regions. At that, the share of Kyiv continued to decline - from 81.0% to 80.4%.

The weight of Zaporizhzhia in the total CIIs' assets under management fell below 3%, while of Dnipro, Kharkiv and Lviv - increased to 7.7%, 4.5% and 2.4%, respectively.

About 2.1% of CIIs' assets under management were in funds, which are registered in other regions of Ukraine (Chart 6).



Chart 5. Regional Distribution of AMC Number, as at 30.09.2017

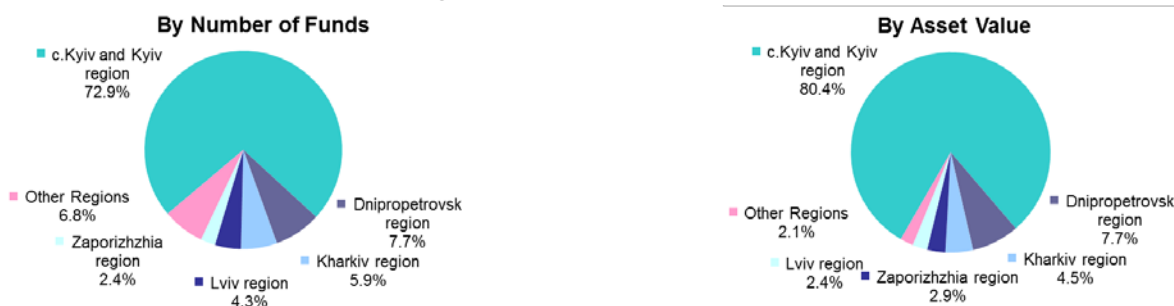


Chart 6. Regional Distribution of CII by Number and Value of Their Assets under Management, as at 30.09.2017

#### **4. Assets and Net Asset Value of CII**

In the 3rd quarter of 2017, **the aggregate total assets of acting CII**, which have reached the norm of the minimum volume of assets, **increased by UAH 6,139.1 mln. (+2.5%, after -2.0% in the 2nd quarter)**. As at September 30, 2017 they amounted to **UAH 248,166.6 mln.**

Assets of *venture CII* returned to growth and provided 91% of growth of the aggregate assets of all funds. During July-September they added UAH 5,566.0 mln. (+2.4%, after -1.8%), despite a slight decrease in the number of venture funds, which provided information for the quarter (-0.7%). As at September 30, 2017 they amounted to UAH 239,942.6 mln. (Chart 7).

Growth was recorded in all sectors, and the fastest it was was *in open-ended (+11.3%, after +4.6%) and interval CII (+12.9%, after +1.4%)*.

After sharp contraction of assets of *closed-end CII with a public offer* in the second quarter, in July-September they partially recovered losses (+4.3%). However, *closed-end CII with private placement (except*

*venture ones)* grew faster (+8.9%), thus, all closed-end CII in the 3rd quarter increased their assets by 7.4% (after +8.1 in the 2<sup>nd</sup> one) to UAH 8,072.2 mln.

The aggregate assets of all CII (*excluding venture ones*) at the end of September 2017 amounted to UAH 8,224.0 mln. (+7.5%, after -7.9% in April-June).

Since the beginning of 2017, the total assets of all CII have grown by UAH 17,978.6 mln. (+7.8%), and for the year their reduction was accelerated to -UAH 5,442.0 mln. (-2.2%) - from the peak level of the 3rd quarter of 2016.

*Open-ended and interval CII* remained these two sectors, which showed growth from the beginning of 2017 as well as for the year: the first ones - by 23.7% and 23.1%, respectively, the second ones - by 17.4% and 19.7%.

Net inflow contributed to the growth of open-ended funds, which was resuming at this time, although an increase in the stock market (by 46% for the year by the UX index) had a more positive effect for both sectors.

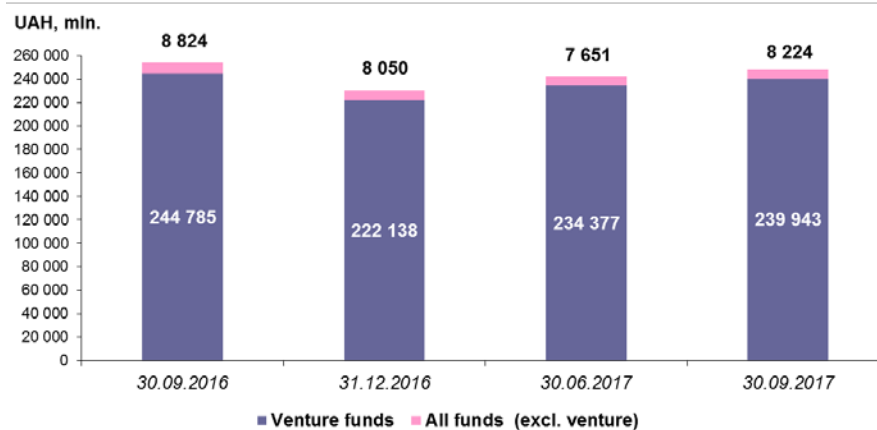


Chart 7. Dynamics of CII Asset Value in Q3 2016 -2017

**The net asset value of the existing CII** (operating funds that have reached the norms) in the 3rd quarter of 2017 also increased – **by UAH 4,550.2 mln. (+2.3%, after -2.7% in the 2nd quarter)**. As at 30.09.2017, it amounted to **UAH 203,636.8 mln.** (Table 6).

All sectors of CII showed quarterly growth, as well as for total assets, and 89% of growth were provided by venture funds.

NAV of *venture CII* increased by 2.1% (after falling by 2.5% in Q2 2017), while of *other closed-end funds with private issue* - went up by 8.2%, and of *ones with a public offering* - by 4.1% (after -12.5%).

Net assets of *open-ended and interval CII* grew the fastest - by 11.9% (after +4.8%) and by 13.5% (after +0.9%), respectively, despite the fact, that number of funds in the sector of interval CII decreased by 1 in the 3rd quarter. In the sector of open-ended funds, portfolio investments' rates of return provided the growth for the umpteenth time, while capital flows accounted for 33% of its NAV's increase (after 31% in Q2 2017).

Growth of NAV, as well as of total assets, has been recorded since the beginning of 2017 in all sectors of CII, *except closed-end CII with public offering*, and for the year - only in open-ended and interval funds. NAV of *open-ended CII* increased by 24.0% for 9 months, for the year - by 23.1% (one fund of this type was closed down at the end of 2016). *Interval*



CII increased NAV by 17.0% from the beginning of 2017 and by 19.3% for the year.

As at 30.09.2017 NAV of *open-ended* CII amounted to UAH 71.6 mln., *interval ones* – UAH 76.1 mln., *closed-end CII with public offer*- UAH 2,493.6 mln.

**NAV of all CII for the 9 months of 2017 increased by UAH 15,305.3 mln. (+8.1%), and for the year - decreased by UAH 8,769.8 mln. (-4.1%).**

*Table 6. Dynamics of CII NAV, by Types of Funds, in Q3 2016-2017, UAH mln.*

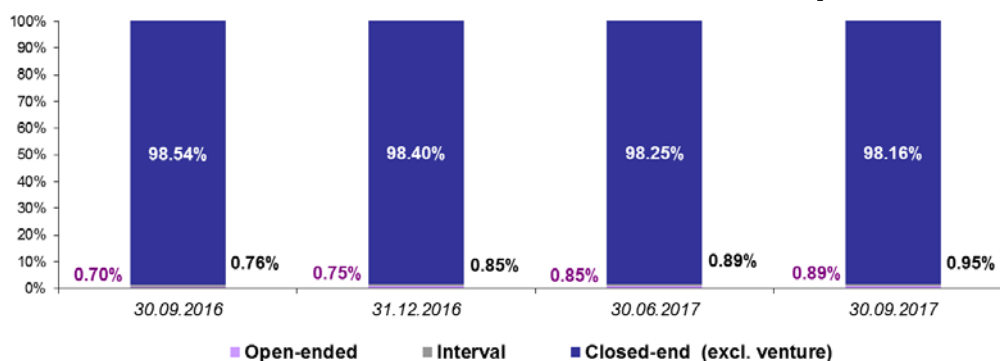
Funds	30.09.2016	31.12.2016	30.06.2017	30.09.2017	Q3 2017 change	YTD 2017 change	Annual change
Venture funds	58.2	57.7	64.0	71.6	11.9%	24.0%	23.1%
Open-ended	63.7	65.0	67.0	76.1	13.5%	17.0%	19.3%
Interval	8 244.1	7 546.2	7 365.2	7 867.7	6.8%	4.3%	-4.6%
Closed-end (excl. venture), incl.	2 698.5	2 712.6	2 396.4	2 493.6	4.1%	-8.1%	-7.6%
with public issue	5 545.6	4 833.6	4 968.8	5 374.1	8.2%	11.2%	-3.1%
with private issue	<b>8 366.0</b>	<b>7 668.9</b>	<b>7 496.2</b>	<b>8 015.4</b>	<b>6.9%</b>	<b>4.5%</b>	<b>-4.2%</b>
<b>All funds (excl. venture)</b>	204 040.7	180 662.6	191 590.4	195 621.4	2.1%	8.3%	-4.1%
<b>All funds</b>	<b>212 406.6</b>	<b>188 331.6</b>	<b>199 086.6</b>	<b>203 636.8</b>	<b>2.3%</b>	<b>8.1%</b>	<b>-4.1%</b>

\*Acting CII that have reached the norm for minimum amount of assets (were recognized as valid), are managed by AMC and provided statements for the relevant period (on the reporting date)

Increase of NAV in open-ended and interval funds, which was several times ahead of the growth in closed-end CII, increased the weight of the first and second ones in the total net CII's assets (except venture ones). Thus, the share of open-

ended CII increased from 0.85% to 0.89%, of interval ones - from 0.89% to 0.95%.

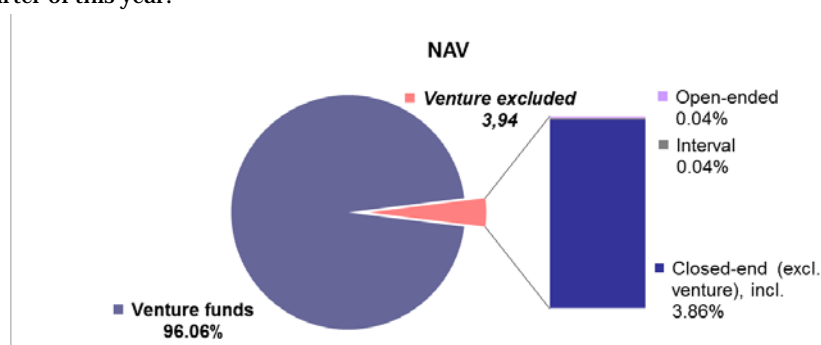
Weight of closed-end funds still remained above 98% (Chart 8). Of these, funds with public issue amounted to about 31% (after 32% in the 2nd quarter).



*Chart 8. Dynamics of Non-Venture CII NAV Breakdown by Fund Types in Q3 2016-2017*

Venture CII, in a context of slower growth of NAV in comparison with the rest of the sectors, reduced the market share for the 3rd quarter from 96.2% to 96.1% - to the level of the 1st quarter of this year.

Shares of *open-ended* and *interval* funds increased symbolically to 0.04% of the aggregate NAV of all CII (Chart 9).



*Chart 9. Distribution of CII NAV by Fund Types as at 30.09.2017*

### **5. Net Capital Flow in Open-Ended CII**

In the third quarter of 2017, the net inflow of capital to open-ended CII increased.

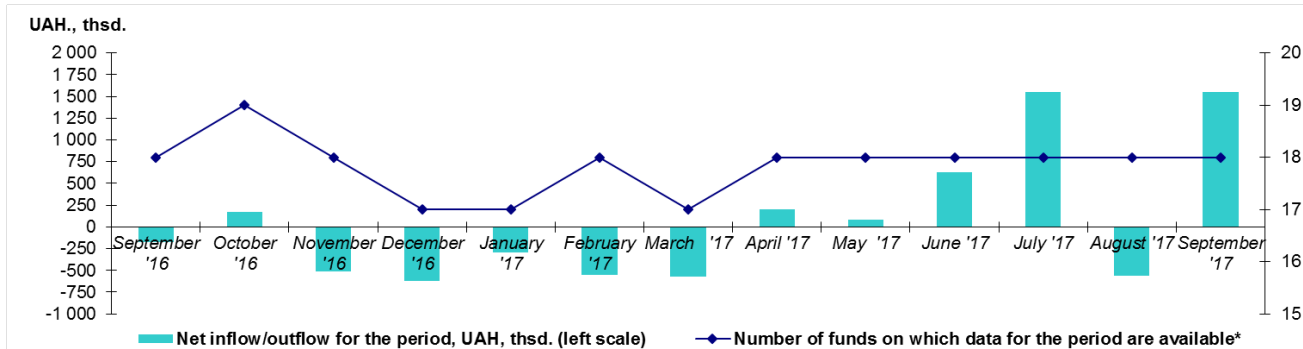
August recorded an outflow from the sector - after a significant inflow in July, which exceeded the June's indicator by more than doubled. In September, investors returned to increase their investments in open-ended funds (Chart 10, Table 7).

Dynamics of the Ukrainian Equity Index (UX) at this time was markedly correlated with the movement of capital in the sector: the indicator rose sharply in July, "froze" in August and resumed active growth at the end of September. So, investors had an opportunity to capture the effect of the July's increase (by the UX index - by 7%). The September influx took

place against the backdrop of index's rise by 5% (in the last few days of the month).

Additional investments, as in the previous quarter, came mainly from local retail investors, the number of which increased in the sector in the third quarter, as opposed to Q2 2017.

The number of open-ended CII, which had a net inflow during July-September, varied from 3 in August to 7-8 in July and September (after 2-4 in April-June) - out of 18 operating funds. The aggregate quarterly result of 8 funds, which had a net inflow for the quarter, amounted to +UAH 3.3 mln. (after +UAH 1.3 mln. for funds with inflow in the 2nd quarter). At that, one fund received 70% of them.



**Chart 10. Monthly Net Capital Flow in Open-Ended CII in September 2016-2017 \***

\* Based on daily data

In total, for the 3rd quarter of 2017, **the aggregate net inflow of capital in open-ended CII** amounted to **UAH 2.5 mln.** (after the outflow of **UAH 0.9 mln.** in the 2nd quarter, Chart 11). Thus, it grew for the quarter by 2.8 times.

Despite this, movement of capital for the umpteenth time was not the key factor in growth of open-ended funds' NAV (it provided 33% of its growth, after 31% in the 2nd quarter).

For the first time since the 2nd quarter of 2011, **the annual flow of capital (for the 12 months ending in September of 2017) in open-ended CII was positive:** as at 09.30.2017 net inflow comprized **UAH 1.01 mln.** (after – **UAH 0.5 mln.** at the end of June). This happened in the conditions of stock market's growth at this time by 46% (by the UX index).

**Table 7. Monthly Net Capital Flow in Open-Ended CII in September 2016-2017\***

Period	Net inflow/outflow for the period, UAH, thsd.	Number of funds on which data for the period are available*
September '16	-177	18
October '16	167	19
November '16	-515	18
December '16	-618	17
January '17	-296	17
February '17	-551	18
March '17	-577	17
April '17	198	18
May '17	80	18
June '17	626	18
July '17	1 546	18
August '17	-564	18
September '17	1 555	18
<b>For 12 months</b>	<b>1 051</b>	<b>18</b>

\* Based on daily data. \*\* For 12 months the average is shown.

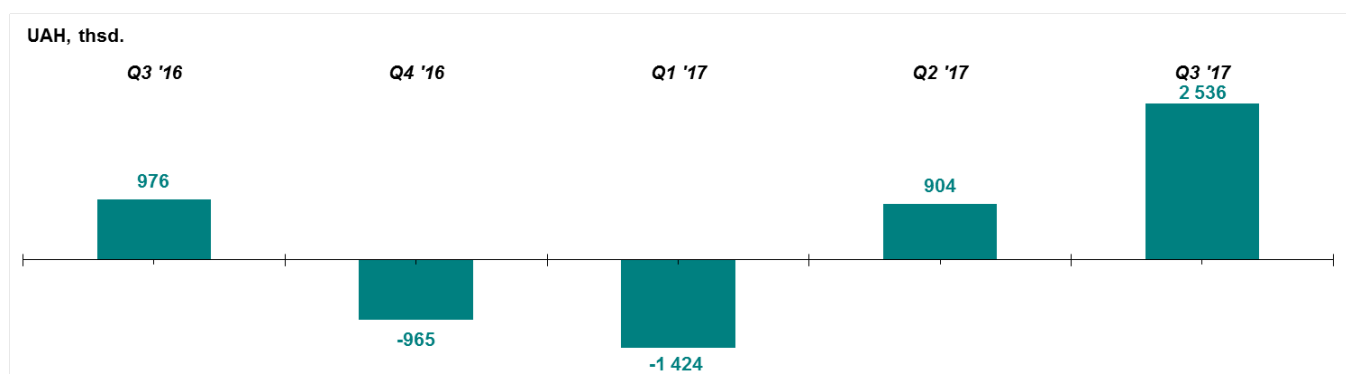


Chart 11. Net Inflow/Outflow of Capital in Open-Ended CII in Q3 2016-2017

The inflow of capital **into the industry of the European Union's investment funds** in July-September 2017 kept a high tempo: net inflow to all funds over three months slightly increased to **EUR 247 bln.**<sup>2</sup>, after EUR 243 bln. in April-June and substantially increased from EUR 171 bln. for the 3rd quarter of 2016.

In July, net revenues were the largest, at that **UCITS**<sup>3</sup>- equity funds, which had unprecedented net sales since December of 2015 (EUR 19 bln.) were the main engine.

Increase of additional investments was mainly concentrated namely in **UCITS** funds, which **attracted in this period EUR 192 bln.** (after EUR 174 bln. in April-June and compared to EUR 130 bln. in July-September of 2016).

During the 3rd quarter of 2017, the increased demand for funds, in particular for UCITS ones, returned the EU industry of funds' net assets again above the level of EUR 15 trln., to EUR 15,332 bln. in September – by 8.2% higher than at the beginning of the year. UCITS' NAV increased for 9 months to EUR 9,475 bln.

**Bond funds were again the most popular among UCITS** in the period from July to September of 2017, the same as before this during the year (EUR 74 bln., after EUR 92 bln. in April-June and EUR 64 bln. a year ago).

**Mixed funds** also received a reduced net inflow, but remained among the leaders of additional acquisitions (EUR 40 bln., after EUR 51 bln. in April-June, EUR 11 bln. a year ago).

**Equity funds**, which at this time continued to increase net sales (EUR 40 bln. for the third quarter, after EUR 35 bln. in Q2 2017 and compared with EUR 1 bln. a year ago), had the same result.

**Money market funds** again suffered an outflow in the last month of the quarter, however, it was significantly lower than in June, and compensated by a net inflow in July-August (in total EUR 34 bln. in the 3rd quarter of 2017, after the outflow of EUR 14 bln. in April-June and inflow of EUR 44 bln. a year ago).

**The net inflow to AIF funds**<sup>4</sup> in July-September of 2017 declined - to **EUR 54 bln.** (after EUR 70 bln. in April-June), although it grew compared to EUR 41 bln. a year ago. The largest inflow to the sector was in August (EUR 25 bln. ).

**Other funds**, which received net EUR 32 bln. (after EUR 39 bln. in April-June and EUR 17 bln. a year ago) remained **the most popular among AIF funds in July-September of 2017.**

**Equity funds** among AIF ones strengthened the positive dynamics in the third quarter – they attracted additional EUR 10 bln. (after EUR 7 bln. in the 2<sup>nd</sup> quarter and compared to EUR 5 bln. a year ago).

**AIF mixed funds** received less - EUR 7 bln. of net inflow (after +EUR 13 bln. in Q2 2017 and EUR 9 bln. a year ago). **Real estate funds** also have attracted more than EUR 7 bln. (after EUR 6 bln. in the 2nd quarter and EUR 3 bln. in July-September of 2016).

**Bond funds** were outsiders among AIFs in the 3rd quarter of 2017 with a net outflow over EUR 1 bln. (after inflows of EUR 10 bln. in April-June and EUR 9 bln. a year ago).

<sup>2</sup> Based on available data on 28 countries, associations of which are members of EFAMA (24 of EU member states, as well as Liechtenstein, Norway, Switzerland and Turkey) and Poland – the former member of EFAMA - see. [EFAMA Investment Fund Industry Fact Sheet June 2017](http://www.efama.org) на сайті: <http://www.efama.org>.

<sup>3</sup> UCITS (Undertakings for Collective Investment in Transferable Securities) – institutions of collective investments in negotiable securities (those that are traded on regulated markets); are open funds with public issue (offering) and strict requirements for composition, quality, liquidity and structure of assets. They are governed by corresponding Directive (Directive 2009/65 / EC of 13 July 2009), amended in accordance with Directive 2014/91/ EU of 23 July 2014) and other legislative acts of the EU.

<sup>4</sup> AIF (Alternative Investment Funds) - Alternative Investment Funds; in fact, include all other regulated funds, which are non-UCITS. Companies that manage such funds are regulated by Directive AIFMD (Directive 2011/61 / EU of 8 June, 2011).

## **6. Investors of CII**

In the 3rd quarter of 2017, **legal entities - residents** increased their aggregate funds in CII, partially offsetting reductions in the 2<sup>nd</sup> quarter. However, due to a more active increase in investments by other categories of CII's participants, the weight of the first ones in total net assets of all funds continued to decline.

Thus, retaining leadership by the volume of assets belonging to domestic enterprises, they reduced their share in NAV from 67.7% to 66.6% at the end of September of 2017. *Since the beginning of 2017*, the share of *resident enterprises* in the CII's NAV fell by 1.8%. p.p. (from 68.4%), and for the year - by 4.7%. p.p. (from 72.4%).

By sectors of CII, these investors' investments in the third quarter were relatively higher in *closed-end CII*, in particular, in ones *with private issue* (besides venture funds). Share of these investors increased here from 22.9% to 32.4%. And decrease of this category of participants' share in CII's NAV in the 3rd quarter occurred against the backdrop of its decrease *in venture funds* - from 69.3% to 67.9%.

Amount of domestic corporate investors' investments *in open-ended CII* in the 3rd quarter of 2017 increased slightly more in comparison with sector's assets, so their weight here increased from 10.4% to 10.8% (Chart 12)<sup>5</sup>.

**Ukrainian retail investors (residents-individuals)** in the 3rd quarter of 2017 increased their aggregate investments in all sectors of CII, except *closed-end (non-venture) funds*.

*In open-ended funds*, this category of investors in the 3rd quarter again increased its aggregate investments most of all, both in absolute and in relative terms, so its weight in the sector increased from 72.6% to 75.2%.

*In venture CII*, these investors' assets also grew actively in the 3rd quarter, which increased their share in the sector's NAV from 8.9% to 9.3%.

And the largest share among all categories of investors and by types of CII was kept by local retail investors *in interval funds* - more than 82% (after 80% in the 2nd quarter).

*In all CII*, the aggregate weight of these investors continued to increase in Q3 2017 - from almost 10.7% to over 10.9%.

**Foreign investors** increased their investments in CII during this period the most actively, although the

assets of non-resident citizens in them as a whole decreased (except for open-ended CII), and of foreign enterprises - somewhat decreased in open-ended and interval funds.

In total, the growth of foreign investors' aggregate funds was provided by *non-resident legal entities*, and 97% of the whole increase fell on venture CII, where their weight grew for the quarter from 21.7% to 22.7%. As a whole, the share of these investors in all CII's NAV in the 3rd quarter of 2017 also continued to grow, from 21.4% to 22.4%.

*Foreign citizens* in July-September of 2017 reduced their presence and weight in almost all sectors of CII, and the largest their share remained *in closed-end CII with public offering* - more than 1.9% (after almost 2.0% in the 2nd quarter).

*All non-resident investors* at the end of September of 2017 owned 22.5% of all CII's NAV as a whole (in June - 21.6%).

**The number of CII investors** as a whole in the 3rd quarter of 2017 decreased, which was due to the dynamics of *interval CII*, among which one previously reorganized reciprocal fund with a large number of small participants left the market. This sector of CII lost 12.9% of investors for the quarter. In total, CII investors in July-September became less by 35,765 (-13.5%), and for the year their number decreased by 33,267 (-12.7%).

Also, the overall dynamics of the number of investors was significantly affected by closed-end CII with private issue (except venture ones). At that, the number of participants in open-ended funds, closed-end funds with public offering and venture funds - increased during this period.

*In open-ended funds*, the number of participants increased by 27 (+1.6%, after -0.2% in the 2nd quarter). For the year investors in the sector became less by 4 (-0.2%), two of them - Ukrainian citizens.

*In closed-end CII with public offering* number of participants in the 3rd quarter increased by 584 (+15.3%, after -5.9% in Q2 20q7) - this was facilitated by new fund's entry into the market.

*In venture CII*, the number of investors increased for the quarter by 37 (+0.9%, after -13.7% in Q2 2017).

**As a whole, as at 30.09.2017, CII had 228,283 of investors** (Table 8), 98.2% of which were retail investors - residents of Ukraine, 95.5% - participants of interval funds, 0.7% - of open-ended ones, 1.9% - of closed-end CII with public issue and 1.8% - of venture ones.

<sup>5</sup> Excluding CII bearer securities.

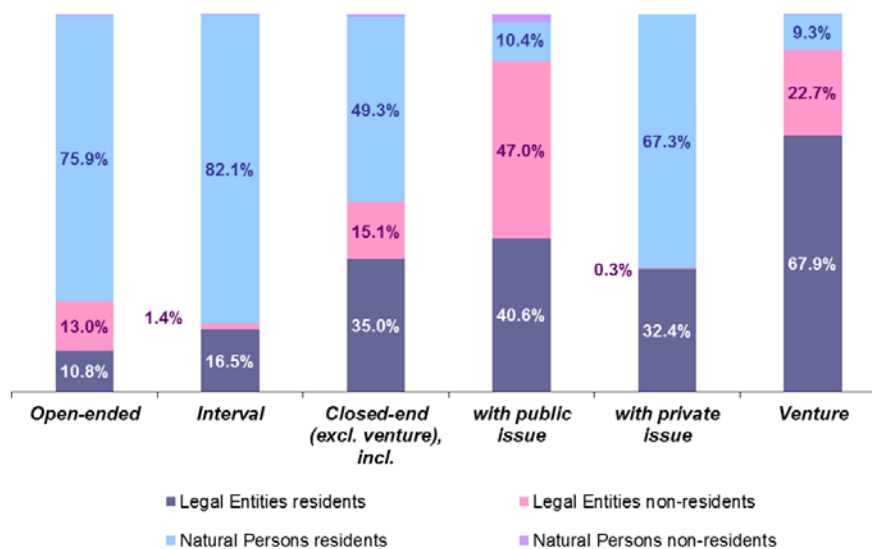


Chart 12. CII NAV Breakdown by Categories of Investors as at 30.09.2017, Share of NAV

Table 8. Investors of CII by Categories, Number and Share of the Total Number, as at 30.09.2017

Funds	Legal Entities				Natural Persons				TOTAL
	residents		non-residents		residents		non-residents		
Open-ended	16	0.94%	6	0.35%	1 687	98.65%	1	0.06%	1 710
Interval	20	0.01%	2	0.00%	217 863	99.98%	18	0.01%	217 903
Closed-end (excl. venture), incl.	461	9.97%	22	0.48%	4 136	89.41%	7	0.15%	4 626
with public issue	287	6.51%	18	0.41%	4 094	92.92%	7	0.16%	4 406
with private issue	174	79.09%	4	1.82%	42	19.09%	0	0.00%	220
<b>All funds (excl. venture)</b>	<b>497</b>	<b>0.22%</b>	<b>30</b>	<b>0.01%</b>	<b>223 686</b>	<b>99.75%</b>	<b>26</b>	<b>0.01%</b>	<b>224 239</b>
Venture	3 166	78.29%	392	9.69%	479	11.84%	7	0.17%	4 044
<b>All funds</b>	<b>3 663</b>	<b>1.60%</b>	<b>422</b>	<b>0.18%</b>	<b>224 165</b>	<b>98.20%</b>	<b>33</b>	<b>0.01%</b>	<b>228 283</b>

Dynamics of **resident individuals'** participation in CII in the 3rd quarter of 2017 was generally downward (35,878, -13.8%, after +0.2% in the 2nd quarter), mainly due to the closure of the old reorganized *interval fund* (in total, -32,166, -12.9%, in this sector). The share of these investors in *interval CII*, however, continued to grow and was close to 100% (there were only 40 participants in all other categories).

In *open-ended CII*, local retail investors accounted for 98.7% at the end of September (after 98.5% in June). During the 3rd quarter, unlike the 2nd one, the number of resident individuals in the sector increased by 29 (+1.7%), while the number of funds was the same.

In the sector of *closed-end CII with public issue* the number of Ukrainian citizens in the 3rd quarter became more by 492 (13.7%), in the background of emergence of a new fund in the sector. These investors accounted for 92.9% of the total number of these funds' participants and 89.4% in all closed-end CII (excluding venture funds).

In *venture CII*, local retail investors in September of 2017 amounted to 11.8% (after 11.4% in June), which was contributed by an increase in their sectoral's amount by 21, or +4.6% for the 3rd quarter (after -2.8% in the 2nd one).

**Legal persons-residents** among investors of CII as a whole in the 3rd quarter became more by 135, or by 3.8% (after -15.7% in the 2nd one). Mostly they entered the *closed-end CII with a public offering* - +90 (+45.7%, after +4.8% in the 2nd quarter). In *closed-end funds with private issue*, their number also increased in the 3rd quarter, in particular, in *venture CII* - by 31 - (+1%, after -16.0% in Q2 2017).

**Non-resident enterprises** have reduced their presence in all CII's sectors, except *closed-end CII with public issue* (+2, +12.5%).

In total, for the 3rd quarter of 2017, the number of these investors decreased in all CII by 18 (-4.1%), at that, the main reduction occurred in *venture funds* (-14, -3.4%).

## 7. Asset Structure of CII

In the 3rd quarter of 2017, the following key changes took place in the CII investments' structure with **usage of stock market's instruments**:

further reducing of the **securities' weight** in open-ended and closed-end CII with private issue (including venture ones), and its increase in closed-end CII with a public offering (Table 9); at that:

increase of *aggregate CIIs' investments in securities* in open-ended, interval and closed-end public funds, and their decrease - in all sectors of closed-end CII with private placement - as opposed to Q2 2017; at that:

growth of assets in *government bonds* in CIIs' sectors with public offering (open-ended, interval, closed-end funds), with a decrease of their share in the NAV of open-ended CII (due to a relatively weaker increase of

such investments compared to equities); decrease of the aggregate value of investments in OVDP and of their weight in the assets of closed-end CII with private placement (including venture funds);

increase in the value of *packages of equities* in all sectors of CII, except for venture ones - with a decrease of their share in assets of all sectors, except open-ended ones;

growth of aggregate investments in *corporate bonds* practically only in closed-end funds (in all sectors); increase of their weight only in closed-end CII with a public offering and in venture CII;

reduction of the aggregate value of investments in *promissory notes* and of their share in assets of closed-end CII with private placement (including venture funds).

Table 9. Changes in the Structure of Aggregate Portfolios of CII by Fund Types in Q3 2017

Asset Type / CII Type / Change per quarter	Open-ended		Interval		CD with public issue		CD with private issue		Venture	
	p.p.	%	p.p.	%	p.p.	%	p.p.	%	p.p.	%
<b>Other Assets (including R)</b>	-0.10	-1.6%	-6.21	-53.7%	-2.15	-3.0%	2.07	3.9%	1.67	2.2%
Real estate	-	-	-	-	0.34	1883.2%	-0.01	-7.1%	-0.25	-8.1%
<b>Cash and bank deposits</b>	0.23	0.9%	9.24	73.1%	1.62	28.3%	1.16	6.9%	-0.13	-9.9%
Bank metals	-0.01	-0.8%	-	-	-0.01	-7.0%	-	-	0.00	10.4%
<b>State bonds</b>	-0.24	-1.0%	0.18	0.5%	0.22	2.1%	-1.66	-86.8%	-0.03	-41.8%
<b>Equities</b>	0.20	0.5%	-3.85	-9.5%	-0.04	-0.3%	-1.18	-5.2%	-1.00	-9.9%
<b>Corporate bonds</b>	-0.09	-12.4%	-0.14	-12.8%	0.02	3.9%	-0.28	-5.3%	0.12	3.8%
Promissory notes	-	-	-	-	-	-	-0.11	-23.9%	-0.39	-7.2%
Mortgage	-	-	-	-	-	-	-	-	0.00	-21.0%
Other securities	-	-	0.00	-0.17	-	-	-	-	0.00	0.5%
<b>Securities</b>	-0.12	-0.2%	-3.82	-5.0%	0.21	0.9%	-3.23	-10.6%	-1.30	-6.8%

**Securities** held the largest share in assets of open-ended and interval CII, despite decrease of their aggregate value and weight in CIIs' assets in Q3 2017: as at 30.09.2017, it was 66.9% and 72.0%, respectively (after 67.0% and 75.8% in the 2nd quarter). In closed-end CII with public offering stock instruments accounted for 22.8% (after 22.6%), with private issue (except venture funds) - 27.2% (after 30.4%), in venture CII - 17.7% (after 19.0%, Chart 13, 14).

**Cash in banks** in CIIs' assets in the 3rd quarter became more - both in absolute and relative terms (as shares of aggregate assets) in all sectors of CII, except venture funds, where their weight dropped from 1.3% to 1.1%. In open-ended CII, it rose from 25.6% to 25.8%.

The largest component of venture CIIs' assets - "other" assets<sup>6</sup> - in the third quarter of 2017 continued to increase - from 76.6% to 78.3% (Chart 14). This was contributed by an order of magnitude higher increase of these assets in the sector compared, in particular, with corporate bonds - by UAH 8.7 bln. (after +UAH 1.5 bln. in the 2nd quarter).

At this time, aggregate investments of venture funds in real estate continued to decline (-UAH 0.4 bln., after -UAH 0.2 bln. in the 2nd quarter). At that, its weight in the sector's assets decreased from 3.1% to 2.9%.

<sup>6</sup> "Other" assets include corporate rights, denominated in other forms than securities, as well as accounts receivable, including loans to companies in which CII own share of capital (for venture funds).

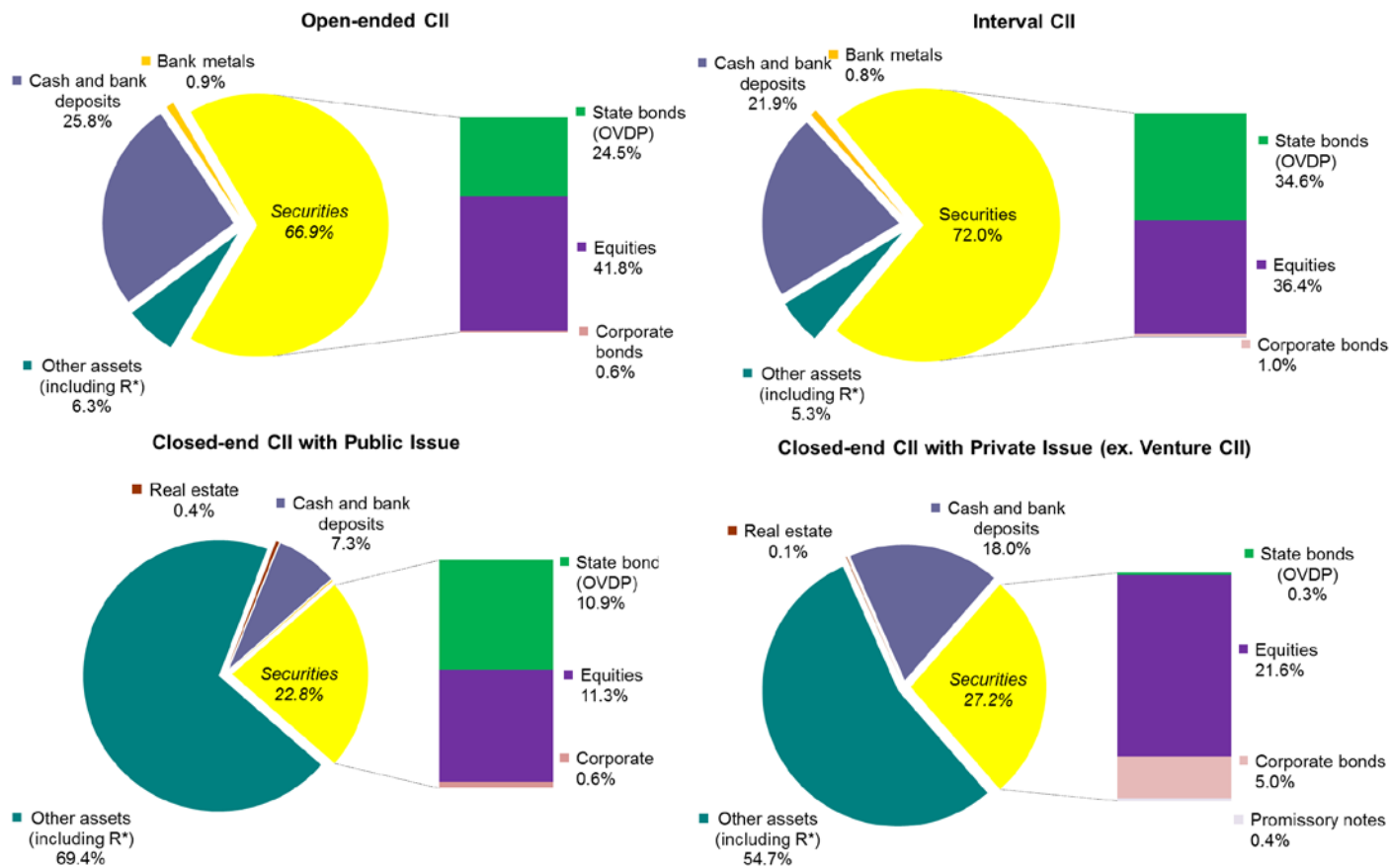


Chart 13. CII Assets Structure, Venture Funds Excluded, by Fund Types as at 30.09.2017

Among the securities, the aggregate value of venture CIIs' investments *in other securities (derivatives)* continued to increase, it also increased in the third quarter *in corporate bonds*, while *equities, promissory notes and government bonds* declined.

The share of corporate bonds in the sector increased for the quarter from 3.2% to 3.3%, of derivatives from 0.2% to almost 0.3%.

The value of aggregate investments of venture funds in other stock instruments - and their weight in the sector's assets - decreased: *equities* – dropped from 10.1% to 9.1%, and *promissory notes* - from 5.4% to 5.0%. *OVDP* had a small share within the range of 0.04%.

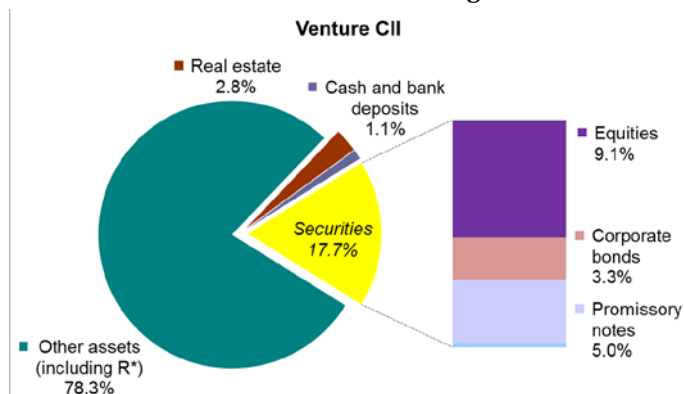


Chart 14. Asset Structure of Venture CII as at 30.09.2017

**Portfolio of all CIIs' securities in the 3rd quarter of 2017 kept the downward dynamics** – it decreased by UAH 1,960.5 mln., or 4.2% (after –UAH 4,885.2 mln. in the 2nd quarter). As at September 30, 2017, its aggregate value amounted to **UAH 44,962.8 mln.**

Decrease in aggregate CIIs' investments in securities as a whole was associated with a reduction in total investment *in equities*, as well as *in promissory notes* (at the expense of venture funds). *Equities* lost weight in the CIIs' consolidated stock portfolio - from 54.0% to 52.5%, and *promissory notes* - from 27.0% to 26.8%.

Only aggregate investments *in corporate bonds and derivatives* grew (Table 10). The share of the first ones increased from 16.6% to 18.4%. *Derivatives*, which are used practically only by venture CII, added in weight in the 3rd quarter from 1.2% to 1.3%.

The value of CIIs' total investments in *OVDP* decreased in the third quarter again relatively the most, so their weight in the consolidated portfolio of all funds' securities fell from 1.2% to less than 1%.

**Portfolio of CII, except for venture funds**, in July-September of 2017, in contrast to the previous three months, slightly grew - to **UAH 2,191.5 mln.**

Dynamics of the aggregate value of these CIIs' investments in different instruments was practically the opposite: they increased in *corporate securities – equities and bonds* - by 3-4%, declined - in *government bonds and promissory notes* - by 15-17%.

Equities, against the backdrop of a 13% rise in the stock market, increased their weight in the CIIs' stock portfolio (except for venture funds) from 67.9% to 70.3%. *Corporate bonds* added from 12.9% to 13.3%.

*OVDPs* - due to closed-end funds with private placement - lost weight - from 18.2% to 15.5%, remaining the second most popular instrument of non-venture CII (Table 11).

**Diversified CII** in the 3rd quarter of 2017 reduced their portfolio of securities by another 30%, to **UAH 82.7 mln.** (Table 12).

The consolidated *package of equities* decreased for the quarter by almost half (-46%), and its share in the these funds' portfolio of securities - from 83.0% to 63.4%.

*OVDP* increased their presence in the sector's assets, restoring losses in the total value of investments in them in the previous quarter, at that their weight here increased from 16.0% to 25.1%.

Diversified CIIs' investments in *corporate bonds*, whose weight in the consolidated stock portfolio of this CIIs' sector increased from 1.0% to 11.5%, sharply increased (+733%) due to closed-end funds.

*Table 10. Portfolio of Securities and Derivatives in CII by Types of Instruments, as at 30.09.2017*

Security Type	Aggregate Value of the Security in CII Portfolios, UAH	Share in the Aggregate CII Securities Portfolio	Q3 2017 Change, UAH	Change, %
Equities	23 591 249 722	52.47%	-1 734 559 135	-6.8%
Promissory notes	12 040 696 937	26.78%	-614 363 652	-4.9%
Corporate bonds	8 285 068 391	18.43%	497 358 341	6.4%
Internal state loan bonds (OVDP)	437 139 876	0.97%	-124 909 412	-22.2%
Mortgage securities	8 220 737	0.02%	-1 920 852	-18.9%
Derivatives	600 406 601	1.34%	17 857 457	3.1%
<b>TOTAL</b>	<b>44 962 782 265</b>	<b>100.00%</b>	<b>-1 960 537 253</b>	<b>-4.2%</b>

*Table 11. Portfolio of Securities and Derivatives in CII (Venture Excluded), as at 30.09.2017*

Security Type	Aggregate Value of the Security in CII Portfolios, UAH	Share in the Aggregate CII Securities Portfolio	Q3 2017 Change, UAH	Change, %
Equities	1 541 199 219	70.33%	54 734 336	3.7%
Internal state loan bonds (OVDP)	339 581 161	15.50%	-59 188 441	-14.8%
Corporate bonds	291 025 527	13.28%	9 600 058	3.4%
Promissory notes	19 718 794	0.90%	-4 075 711	-17.1%
<b>TOTAL</b>	<b>2 191 524 701</b>	<b>100.00%</b>	<b>1 070 243</b>	<b>0.0%</b>

*Table 12. Portfolio of Securities and Derivatives in Diversified CII, as at 30.09.2017*

Security Type	Aggregate Value of the Security in CII Portfolios, UAH	Share in the Aggregate CII Securities Portfolio	Q3 2017 Change, UAH	Change, %
Equities	52 420 540	63.36%	-45 085 657	-46.2%
Internal state loan bonds (OVDP)	20 765 361	25.10%	1 973 374	10.5%
Corporate bonds	9 546 166	11.54%	8 400 167	733.0%
Other securities	2	0.00%	0	0.0%
<b>TOTAL</b>	<b>82 732 070</b>	<b>100.00%</b>	<b>-34 712 115</b>	<b>-29.6%</b>

## **8. Rates of Return: CII and Other Financial Instruments**

The rise of the stock market in the 3rd quarter of 2017, and especially the rapid growth in July and late September, contributed to rates of returns' growth in all CII sectors (except for venture ones) at this time. **Closed-end CII (with a public offering)** became the leaders

in terms of quarterly returns **among CII by type of funds** – as well as of all considered **financial instruments**. *Equity funds* were again the leaders among the diversified CII with public offering by asset classes (Chart 15).



Ukrainian equities, according to UX index, increased for the 3rd quarter by 13.1%, after 0.5% in Q2 2017, and by PFTS index - by 5.0% (after +2.8%).

Rates for banks' deposits in hryvnia in the beginning of the quarter slightly increased, and in foreign currencies - continued to fall, which occurred against a background of a certain devaluation of hryvnia during this period. Therefore, *deposits in euro* outperformed other types of deposits by rates of return (+5.9%, after +3.6% in the 2nd quarter). The annual time *deposits in hryvnia* brought an average of 4.0% in July-September (after +3.7% in April-June). *Dollar deposits* showed +3% (after -1.8% in the 2nd quarter).

The yield on *gold deposits*, along with the strong increase in its prices in August-September, provided for Q3 2017 +5.5% (after -3.1% in Q2)<sup>7</sup>.

*Residential real estate in Kyiv* in July-September slightly increased (in hryvnia's terms - by 0.6%, after -5.1% for the second quarter).

**Among CII by types of funds, closed-end CII with a public offering** in the 3rd quarter of 2017 led with the average return of **9.3%** (after -2.3% in Q2 2017, when the sector was an outsider).

The range of indicators of individual funds in the sector has considerably expanded and shifted upwards from -7.3% to 236.8% (excluding the extreme values, the average yield here was 3.7%).

*The growth of investments in Q3 2017 was shown by 25 out of 40 of these CII (63%, after 45% in Q2 2017).*

**Closed-end funds with private placement (other than venture ones)** provided an increase in the value of investments by an average **of 6.0%** for the 3rd quarter of 2017 (after +6.8% for Q2 2017).

The range of these funds' quarterly results narrowed slightly and dropped - from -80.1% to +75.3%.

*Almost half of these funds - 14 out of 30 - showed an increase in the value of their securities* for the 3rd quarter, (47%, after 21% in Q2 2017).

**Open-ended CII** in the 3rd quarter again had higher-than-average results in the industry and increased them compared to the 2nd quarter: an average of **+5.6%**, after +2.7%, respectively.

*Almost all of the 18 funds in the sector have shown an increase in the value of their certificates (with the exception of one fund): indicators of individual funds of this type varied from -0.01% to 13.1%.*

In total, 15 open-ended CII at least compensated for losses from inflation in the 3rd quarter, 14 were more profitable than PFTS index, 10 – than dollar deposits, 9 – than hryvnia's ones, 8 – than deposits in EUR and gold, and one showed results at the level of UX index.

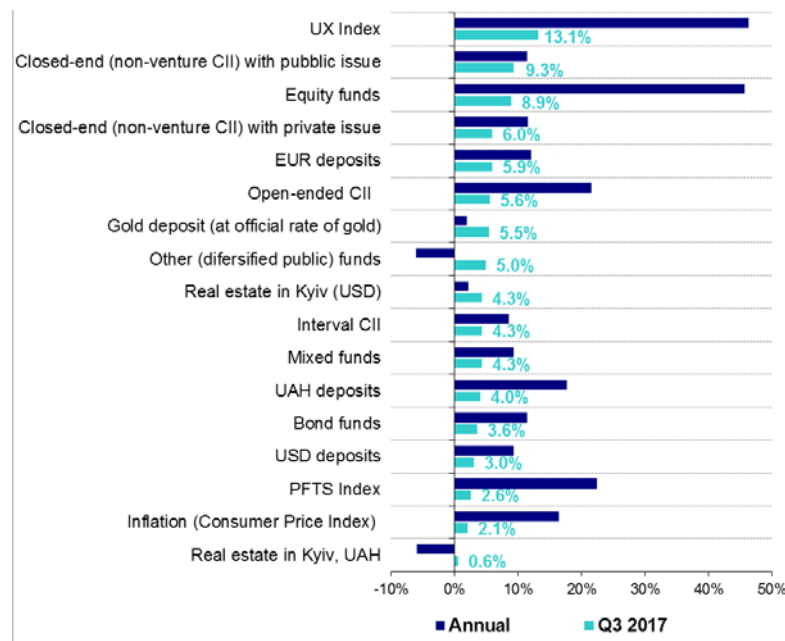


Chart 15. Rates of Return of CII, Deposits, Equity Indexes and Inflation Rate in Q3 2017<sup>8</sup>

**Interval funds** showed moderate **+4.3%** in Q3 2017, however, compared to the 2nd quarter, they significantly increased their profitability (from -0.6%).

The range of indicators of individual funds slightly increased and rose - from -9.4% to +16.9%.

*Growth was shown by 14 funds out of 18 (78%, after 37% in the 2nd quarter).*

**Among diversified CII with public offering by asset classes, equity funds** were stable leaders in 2017 (**+8.9%**, after +3.5%). Among them, three funds were of open-ended type, the remaining two were interval funds. All these funds had quarterly rates of return that covered inflation, surpassed the growth of PFTS index

<sup>7</sup> For adequate comparison of rates of return it is necessary to take into account liquidity of CII, in particular, of open-ended type, which allow to withdraw from investments on any working day without loss of yield, in contrast to fixed-term bank deposits, which mainly include recalculation of interest rate in case of early refund at the rate of deposits in current accounts (close to zero). At the same time, calculated CIIs' rates of return do not account for possible commissions and other expenses at the entrance/exit to/from fund, as well as taxation of investments' yield in case of exit from fund and taxation of deposits' interest rate.

<sup>8</sup> CII' rates of return are calculated based on reporting data for Q3 2017 for 18 open-ended, 18 interval, 70 closed-end CII (including 40 funds with public offering and 30 - with private placement) and on reporting data for the previous periods – see [Ренкінги: ІСІ за типами фондів та ІСІ \(диверсифіковані публічні\) - за класами фондів](#). Inflation rate is calculated based on data of the Ukrainian State Statistics Service (indexes of consumer prices for goods and services in 2017 (till to the previous month)). Return on real estate in USA dollars is calculated as an average of data on residential property's values in Kyiv from web portals: <http://www.domik.net>, <http://100realty.ua>, <http://realt.ua>; in Hryvnia – based on data from web portal: <http://100realty.ua>.

and income on all types of deposits, and the leader was at the level of UX index.

**"Other" diversified funds with public issue** in Q3 2017 were the second ones among the classes of funds by rates of return, which increased to **+5.0%** (from -0.3% in Q2 2017). In this category there were only two funds in September of 2017 – one closed-end and one interval funds.

**Mixed investment funds** also significantly increased their average quarterly result – up to **4.3%** (from +1.6% in the 2nd quarter). At that, the number of CII related to this class increased from 19 to 26, and number of funds with positive indicators increased from 69% to 73%.

**Bond funds** (one open-ended and two interval ones) this time had the lowest profitability among the classes of CII, but at the same time it has tripled in comparison with the 2nd quarter - to **+3.6%**. All three of

these funds provided an increase of depositors' investments.

All sectors of CII in the 3rd quarter had a yield on which they had outstripped US dollar deposits, PFTS index and brought additional income, which was above the inflation rate.

**The returns from the beginning of 2017** in all sectors of CII were positive and significantly increased at the end of September. **Equity funds (+30.3%) and open-ended CII (+19.5%)** remained the leaders by this indicator, while bond funds (+6.7%) and interval CII (+9.2%) had the slightest gain for 9 months.

**In terms of annual returns**, based on the results of the 3-rd quarter, **equity funds** also held a significant lead (**+45.7%**, after +53.1% in the second quarter), catching up with the UX index (+46.3%), and also **open-ended CII (+21.6%**, after +22.7%).

## **9. NPF Asset Management Market Performance**

The assets of non-state pension funds<sup>9</sup> under management in the 3rd quarter of 2017 continued to grow at an accelerated pace. At the same time, the number of AMCs managing NPF assets continued to decline. In total, 36 AMC had pension funds under management (-1 for the 3rd quarter): 46 open, 6 corporate and 6 professional NPF – the same as at the beginning of the quarter (Table 13). As a result, as at end September, **in total there were 58 pension funds under management** (except for the corporate fund of the NBU) - **less by 7.9%** than a year ago. Accordingly, the share of NPF of open type by the number of funds kept at the level of 79.3% (Chart 16).

**Value of NPF assets under AMCs' management in the 3rd quarter of 2017 increased by 5.3%** (after +1.4% in the 2nd quarter), and for the year - by 13.8%, to **UAH 1,170.8 mln.** (Table 14).

Assets of **open NPF** under management added the most for the quarter - 6.4% (after +0.9%), so at the end of September, the market share of these funds increased from 72.0% to 72.8%. As at 30.09.2017, these pension assets reached **UAH 851.9 mln.** Annual growth in Q3 2017 accelerated from +12.3% to +13.6%.

**Assets of corporate NPF** under management gave way to open ones by pace of growth - in the 3rd quarter they added 4.1% (after +4.2%) and reached **UAH**

**200.1 mln.** For the year, the growth of these funds remained the largest among types of NPF, although it continued to slow down - from +21.1% in the 2nd quarter to +19.8% in the 3rd one.

**Assets of professional NPF** under management changed the weak growth in the 2nd quarter by a slight decrease in the 3rd one - by 0.3% (after +0.2%). For the year, they increased by 6.2% (after +7.4% in the 2nd quarter). As at 30.09.2017, volume of these funds' assets amounted to **UAH 118.8 mln.**

Corporate NPF **remained the largest ones by average volume of assets under management** in September of 2017, being ahead of *open and professional* funds by this indicator more than doubled (UAH 40.0 mln. against UAH 18.5 mln. and UAH 19.8 mln., respectively).

**In the structure of NPF assets**, the **share of securities** in the 3rd quarter of 2017 continued to reduce symbolically - from 50.0% to **49.9%** (for the year - from 50.4%, Chart 17).

Volume of NPFs' stock assets increased in July-September, in conditions of stock indexes' increase, by UAH 27.5 mln. (+5.0%, after -0.3% in the 2nd quarter), and for the year - by UAH 65 mln. (+12.5%, after +8.2%).

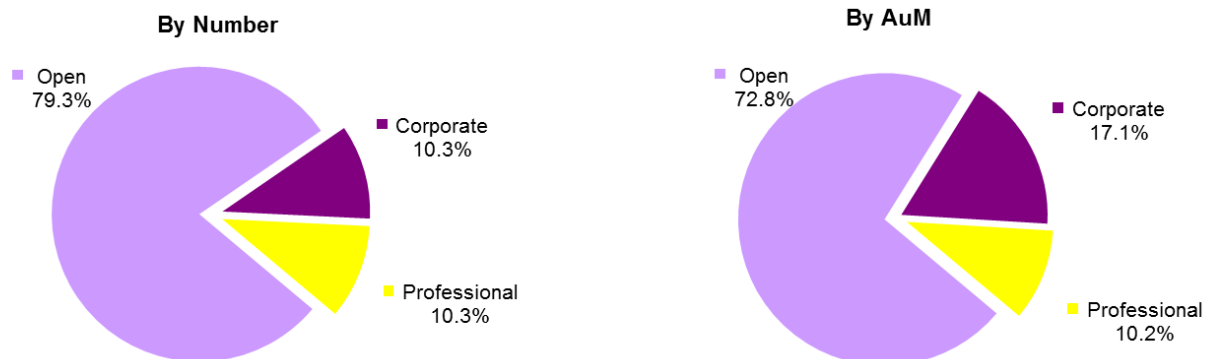
The growth was again provided by practically only *open NPFs*, where the aggregate value of securities increased for the quarter by 8.3% (after -2.0% in the previous one). For the year they added 12.8%.

<sup>9</sup> Без урахування корпоративного пенсійного фонду НБУ.

*Table 13. Number of NPF under AMC management, by Fund Types in Q3 2017 and for the Year*

NPF type	30.09.2016	30.06.2017	30.09.2017	Q3 2017	Annual change
Open	50	46	46	0.0%	-8.0%
Corporate	7	6	6	0.0%	-14.3%
Professional	6	6	6	0.0%	0.0%
<b>Total</b>	<b>63</b>	<b>58</b>	<b>58</b>	<b>0.0%</b>	<b>-7.9%</b>

*\*Without taking into account NBU corporate pension fund.*



*Chart 16. Breakdown of Number of NPF and Value of Their Assets under AMC Management, by Fund Types, as at 30.06.2017*

*Table 14. Value of NPF Assets under AMC Management by Fund Types in Q3 2017 and for the Year*

NPF type	30.09.2016		30.06.2017		30.09.2017		Change of NPF assets under management for Q3 2017	Annual change, %	Annual change, UAH
	Assets, UAH	Number of NPF reported	Assets, UAH	Number of NPF reported	Assets, UAH	Number of NPF reported			
Open	750 149 377	50	800 380 221	46	851 852 126	46	6.4%	13.6%	101 702 749
Corporate	167 086 482	7	192 228 616	5	200 086 963	5	4.1%	19.8%	33 000 481
Professional	111 873 915	6	119 191 880	6	118 838 588	6	-0.3%	6.2%	6 964 673
<b>Total</b>	<b>1 029 109 774</b>	<b>63</b>	<b>1 111 800 717</b>	<b>57</b>	<b>1 170 777 677</b>	<b>57</b>	<b>5.3%</b>	<b>13.8%</b>	<b>141 667 903</b>

Securities *in open NPF*, according to the results of the third quarter, returned the largest share among the types of assets - 47.2% (Table 15, Chart 18).

*Corporate NPF* in the 3rd quarter focused **on cash in banks** - they grew by 8.4% - the most among the types of NPF. With the increase of these funds' assets in securities for the quarter by only 0.5%, their weight has fallen again - from 54.8% to 52.9%.

*Professional funds* at this time reduced aggregate investments in stock instruments by 5.0%, but the latter remained the key component of assets of the former ones - 63.7% (after 66.8% in the 2nd quarter).

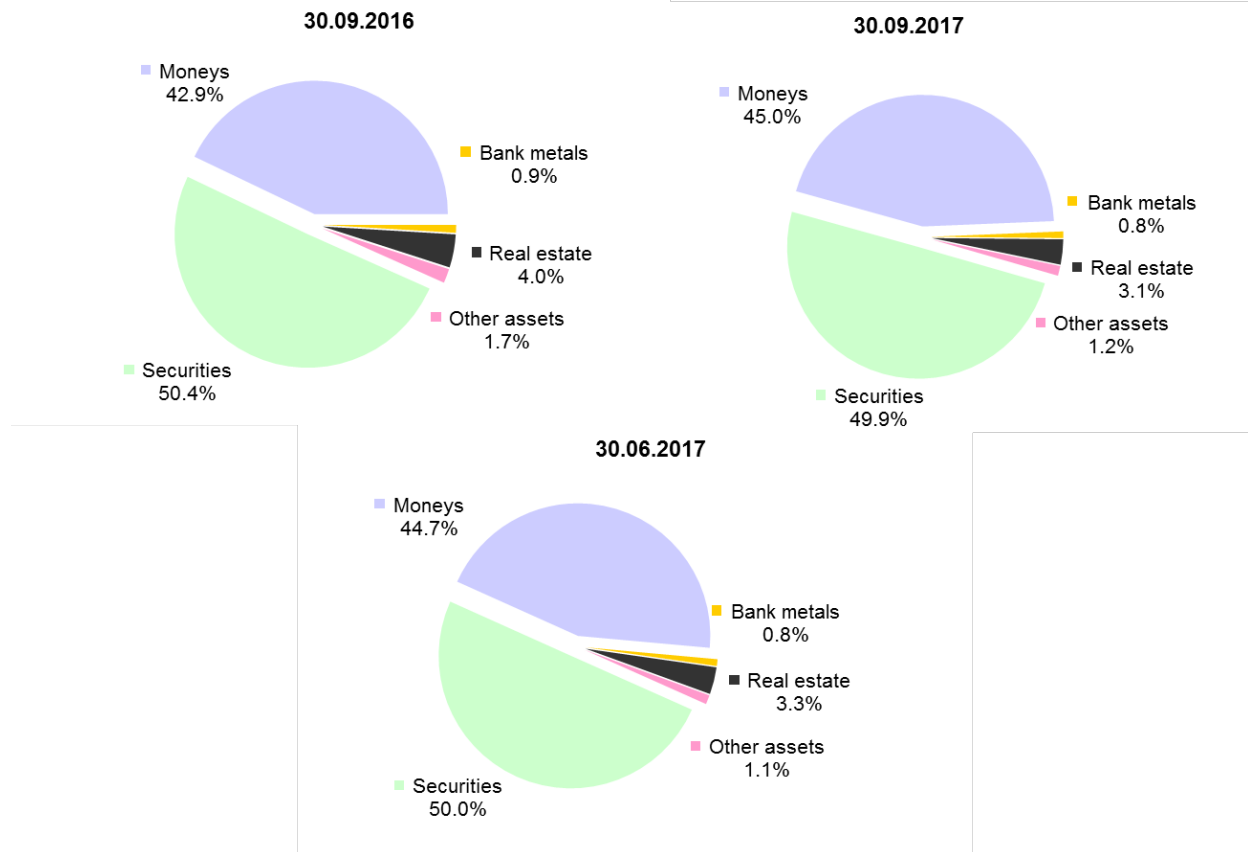
Decrease in their weight was reinforced by increase of these funds' assets in banks (+6.6%).

As a whole, for all NPF, cash in September of 2017 remained the second largest component of assets under management - **45.0%** (after 44.7% in June). For the 3rd quarter their total volume increased by UAH 30.0 mln. (+6.0%, after +3.2% in the 2<sup>nd</sup> one), for the year - by UAH 85.5 mln. (+19.4% - as in Q2 2017).

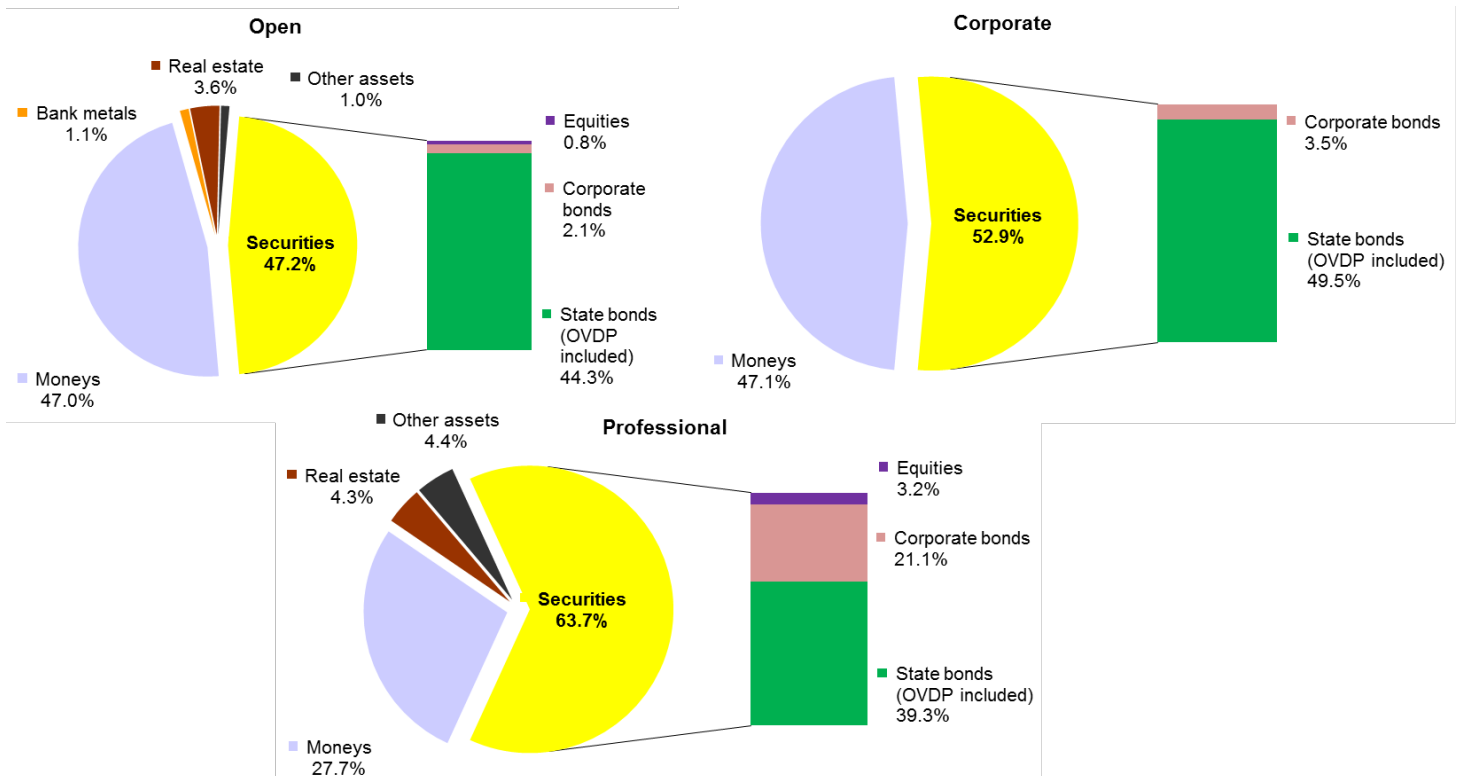
**Real estate**, as before, was only in assets of open and professional NPF (3.6% and 4.3%, respectively), while **banking metals** were only in open ones (1.1%).

*Table 15. Structure of NPF Assets under AMC Management, by Fund Types, as at 30.09.2017, UAH*

NPF Type	Securities	Moneys	Bank metals	Real estate	Other assets
Open	402 266 145	400 199 072	9 440 182	31 087 514	8 859 212
Corporate	105 940 517	94 146 446	0	0	0
Professional	75 666 563	32 917 090	0	5 050 939	5 203 995
<b>Total</b>	<b>583 873 225</b>	<b>527 262 609</b>	<b>9 440 182</b>	<b>36 138 453</b>	<b>14 063 208</b>



*Chart 17. Dynamics of NPF Aggregate Portfolio Structure in Q3 2017 and for the Year*



*Chart 18. NPF Assets Structure by Fund Types as at 30.09.2017*

### **10. Insurance Companies' Asset Management Performance**

In the 3rd quarter of 2017, the assets of insurance companies (IC) under management grew further, albeit at a slow pace, in conditions of the unchanged number of market's participants – both of IC, which transferred their assets for management, and AMC, which manage them.

**Number of IC with their assets under AMC management** remained **6** in September, and **AMC**, which rendered such services for IC - **2** (Chart 22).

**Assets of IC under management** for the 3rd quarter have grown significantly less than in Q2 2017 - by 5.0% (after +20.5%), and for the year - by 70.6%. For 9 months of 2017 they added from the beginning of the year - more than one and a half times 61.0% (Table 13).

As at September 30, 2017, these assets reached **UAH 87.4 mln.**

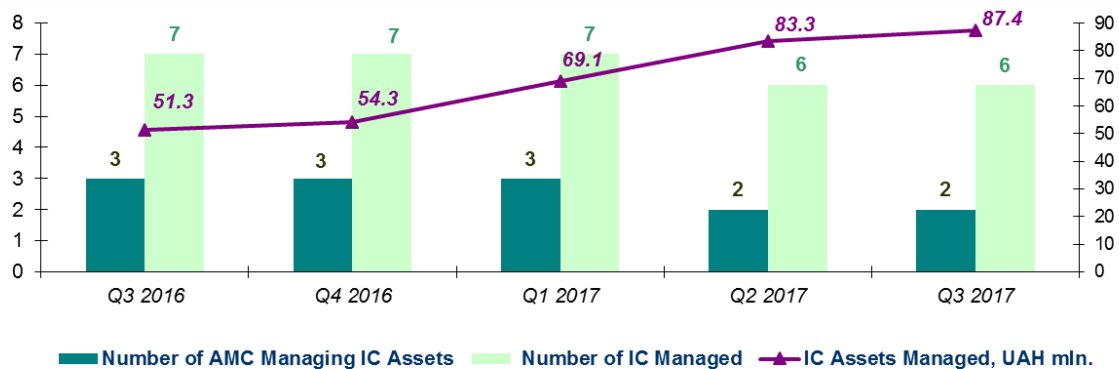


Chart 19. Dynamics of IC Asset Management in Q3 2016-2017

Table 16. IC Assets under AMC Management in Q3 2016-17

Period	Number of AMC Managing IC Assets	Number of IC Managed	IC Assets Managed, UAH mln.	Change of IC Asset under Management		
				Q3 2017	YTD 2017	Annual
Q3 2016	3	7	51.3	5.8%	56.4%	69.0%
Q4 2016	3	7	54.3	6.0%	65.7%	65.7%
Q1 2017	3	7	69.1	27.3%	27.3%	106.4%
Q2 2017	2	6	83.3	20.5%	53.4%	71.9%
<b>Q3 2017</b>	<b>2</b>	<b>6</b>	<b>87.4</b>	<b>5.0%</b>	<b>61.0%</b>	<b>70.6%</b>

\* IC - Insurance Companies

### **11. Resume**

In the third quarter of 2017, the world's leading stock markets and the Ukrainian one accelerated growth, and along with it the inflow to investment funds also increased. Ukrainian open-ended CII during this time has grown almost three times in comparison with the previous quarter, and the annual capital flow in the sector for the first time since the 2nd quarter of 2011 was positive.

**The key trends of the asset management industry in Ukraine in the 3rd quarter of 2017 were:**

- Quarterly growth in the number of AMC for the second time in 2017; further increase in the number of registered CII and for the first time in the year decrease in the number of *recognized CII* (in both cases mainly due to venture funds);
- Growth of the aggregate value of industry's assets - at the expense of all sectors of the CII - with the reduction of the share of venture funds in the

NAV of the market (as opposed to the 2-nd quarter);

- Further increase of the weight of Kyiv and the metropolitan area by the number of AMC and CII under management and reduction - by CII's assets under management;
- Increasing of open-ended CII's NAV for the sixth consecutive quarter, in a context of a sharp rise in the stock market and significantly enhanced net inflow of capital to the sector;
- Relatively the fastest growing of interval CII's NAV (growth - for the fourth consecutive quarter); turn up of the dynamics of net assets for closed-end CII with a public offering - due to growth in the stock market, as well as emergence of a new recognized fund in the sector;
- Further reduction in the number of investors in the industry as a whole (due to old reorganized interval funds); at the same time - increase of their number in open-ended funds for the first time during the year;
- Continuation of more than one year's growth of Ukrainian citizens' aggregate assets - in all sectors of CII, except for closed-end (non-venture) funds; in open-ended CII - steady growth of investments of local retail investors, by which they outstripped other categories of participants in these funds and reached  $\frac{3}{4}$  of sector's NAV;
- Despite increasing of resident enterprises' aggregate investments in venture funds and all CII as a whole, - further decrease of their weight in net assets of the industry;
- Foreign investors (enterprises) made relatively the most active among all categories, accumulation of investments in CII, first of all in venture funds;
- Further reduction of the securities' share in open-ended and closed-end CII with private issue

(including venture funds), simultaneously with the growth of aggregate CII's investments in securities in open-ended, interval and closed-end public funds;

- Growth of rates of return in all sectors of CII, except for closed-end non-venture CII with private issue (opposite to Q2 2017); almost all open-ended CII and all diversified equity funds with public offering had positive returns and held leadership in yield since the beginning of the year and for the year;
- In the asset management market of pension funds - accelerated, and in the asset management market of insurance companies - slowed down growth of assets under management; a slight decrease in the number of AMC with NPF assets under management.

So, in the third quarter of 2017, the demand for CII increased, replacing the previous dynamics, in particular for open-ended funds, as well as for venture ones, where the number of investors increased and capital inflows intensified. In addition, closed-end CII with public offering entered the market for the second time in a row, which also increased the number of investors in the sector.

Intensified growth of the stock market during this period, against the backdrop of certain macroeconomic successes, pushed up the yield of CII, which invested mainly in securities - especially, open-ended, interval and equity funds, at that the first and latter were ahead of deposits in hryvnia in terms of annual rates of return.

Asset management market of non-state pension funds, as well as of insurance companies, continued to grow in the 3rd quarter - due to increase in the value of these sectors' assets.

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**See additional information and statistical data on the UAIB website:**

- [The Ukrainian Fund Market in Figures](#)
- [Daily Fund Data](#)
- [Analytical Reviews and Statistics of Publicly Offered Investment Funds: Weekly: Monthly](#)
- [Quarterly & Annual CII Industry Reviews](#)
- [Quarterly Statistics of NPF Under Management](#)
- [Ranking: AMC Rankings; CII Rankings \(by fund types and by fund classes\)](#)

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