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1. Stock Markets: Ukraine and the World

Beginning of the year 2018 for the world's leading stock markets was vibrant and optimistic, but finally the quarter appeared to be the period of turbulence: against the backdrop of geopolitical confrontations and new threat of large-scale trade wars between countries with major markets, almost all key stock indices showed increased volatility and completed the first three months of the year at lower levels. February and March were particularly worrying for global investors.

Beginning of February was designated by collapse of indexes, especially in the EU, after 27 countries decided to refuse the UK's proposal to include its financial sector in the free trade agreement with the EU after Brexit. One its consequences will be loss by the British investment funds and asset management companies of "European" status and access to the EU Single Market. This put at risk the most profitable industry of the country, most dependent on the connections with the block.

Increased inflation in the United States also strengthened investors' negative expectations in leading markets at this time.

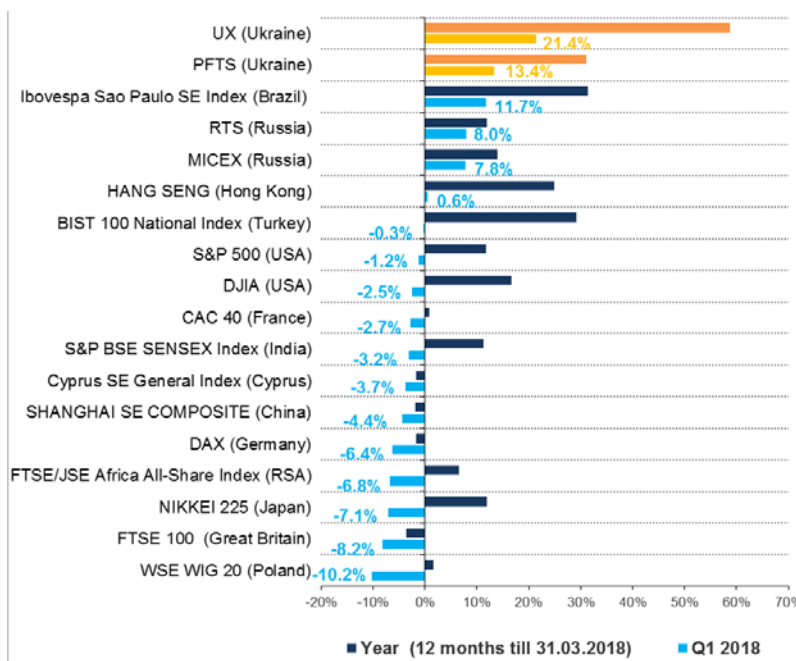
March brought an aggravation of relations between the United States and their main trading partners against the backdrop of the initiatives of President Trump's administration to protect their own market. This caused a wave of indignation and led to preparation of appropriate measures, in particular of trade restrictions, in response by China and the EU.

By results of the quarter, all key the EU and world markets fell. Equities in the Great Britain, which lost 8.2%, suffered the most in January-March.

Key market indices in France and Germany dropped by 2.7% and 6.4%, with the German index recording annual losses at the level of 1.8%.

In the USA, the main indicators of the market showed for the first quarter -1.2-2.5%. For the year, as at the end of March of 2018, they rose by 11.8-16.6%.

Japanese equities, after boom in domestic political news at the end of the last year, fell by 7.1% in the first three months of 2018. Their annual indicator, however, remained at the level of American ones (+11.9%, Chart 1).



Ranking by quarterly indicator

Chart 1. Dynamics of stock indexes of the world in Q1 2018*

*Based on the data of exchanges and Bloomberg Agency

Since the beginning of 2018, a number of EU legislative acts regulating financial markets have entered into force, in particular the Directive 2014/65/EU on the

markets of financial instruments (MiFID II), the Regulation of the EU 600/2014 on the markets of financial instruments (MIFIR) and acts and connected with them

technical standards, as well as EU Regulation 1286/2014 on key information documents for packaged retail and insurance investment products (PRIIPs KID). They significantly changed the rules of the game and increased the requirements for professional players in the European financial markets, strengthening both the administrative and financial pressure on them. Taking this into account, as well as serious comments from market participants on the quality of the new regulation and its applicability, the effectiveness of these changes in order to protect the interests of investors - especially of retail ones - has yet to be tested in practice.

At the same time, regulation of **emerging markets** has not undergone significant changes. Among the key of them, *the Chinese one* in the 1-st quarter of 2018 sank for the second time in a row - by 4.4% by the Shanghai Stock Exchange index. On an annual basis, equities of "continental" China lost 1.9% in value.

Turkey, where equities lost 0.3% in January-March of 2018, gave way to Brazil's leadership among BRICS countries, where the leading indicator of equities rose by 11.7%. And the largest losses in this block of markets, except for the Chinese one, had equities in *South Africa* - -6.8%.

Polish key indicator in January-March of 2018 was an outsider with -10.2%, although the annual result it retained positive (+1.6%).

Russian equities were among the leaders of growth for the first quarter (both major indices were about +8%) - this was promoted by increase in energy prices at this time. For the year they kept positive profitability (+12-14%).

In the first quarter of 2018, the **Ukrainian stock market** increased for the 5th quarter in a row, although the long-term positive trend has continued since the 2nd quarter of 2016.

Optimism which prevailed in the Ukrainian market in January-March, in addition to the global search of more profitable assets by investors, which attracted their attention to young and risky markets, was supported by some successes in reforming of financial sector in the form of adoption (or passing through the first stages) of some important bills in parliament, proposed or supported by both regulators and participants of Ukrainian financial sector.

In Q1 2018, the Law "*On Amending Certain Legislative Acts of Ukraine on Facilitation of Business and Investment Attraction by Securities Issuers*" No.

2210-VIII entered into force. Among other things, it introduced changes in requirements for the assets' structure of investment and pension funds. And Law No. 2164-VIII, which improved certain provisions of Ukraine's Law "*On Accounting and Financial Reporting in Ukraine*", abolished the requirement for publishing (printing) financial statements and introduced the term "public interest enterprises" (both Laws are being in force from January 2018)¹.

In early February, the President signed the Law "*On Audit of Financial Reporting and Auditing*" No. 2258-VIII, adopted in December of 2017 (in this way he introduced it into force), which will come into force in October (and on sanctions - in January of 2019).

The new Law "*On Companies with Limited and Additional Liability*" No. 2275-VIII will also make significant influence on many companies in the market. It was adopted in the process of transposition of EU business law (in particular, of the Second Council Directive and other EU legislation) in February, but most of its provisions will come into force in June of 2018 (for the inherited shares which amount is less than 50% - in a year after). The law strengthens the role of the statute in determining of relationship between business co-owners, introduces new rules on corporate governance and, among other things, removes restrictions on the number of LLC's participants.

The Law "*On Amendments to Certain Legislative Acts of Ukraine on Facilitating the Attraction of Foreign Investments*" No. 6141, which was prepared by the National Depository in consultation with the NSSMC and the NBU, introduced the institution of nominee holder, which should facilitate opportunities for foreign portfolio investors to invest in Ukrainian assets through the local stock market. It was adopted at the 1-st reading in February of 2018 (further it was adopted in the 2nd reading and in the whole and sent to the President for signature in May).

The Verkhovna Rada also supported establishment and maintenance of the NBU credit register under the bill No. 7114-d "*On Amendments to some Laws of Ukraine on Creation and Maintenance of the Credit Register of the National Bank of Ukraine and Improvement of Processes of Management of Risks of Bank Credits*", adopted in early February. According to the NBU, the credit register should become an additional effective tool of bank supervision to reduce the level of credit risk, ensure security of banking operations, protect

¹ See more about these Laws – in [UAIB Analytical Review of the Asset Management Market in Ukraine - Q4 2017 & Full Year 2017 Results](#).



depositors' and other bank lenders' interests, and, consequently, increase stability of banking system as a whole and restore lending.

NBU's bill "On Currency" № 8152 was registered in the Verkhovna Rada in March. It is designed to modernize conditions of currency market's functioning in line with modern realities and prepare Ukraine for full liberalization of its currency market and transition to free movement of capital during the coming years. During March, the project was actively discussed in the profile Committee of the Parliament and adopted at the 1-st reading in May.

Among the key bills, submitted to the parliament or staying at the preliminary stages of preparation during Q1 2018, which still remained relevant and being anticipated by the market, there were: the draft law "On Amendments to Some Legislative Acts of Ukraine Regarding Introduction of a Cumulative System of Compulsory State Pension Insurance" "No. 6677, registered in the parliament already in July of 2017, and "On Amendments to the Tax Code of Ukraine Regarding the Tax on the Withdrawn Capital", which is still discussed by public and business organizations and has not yet been submitted for consideration by the Verkhovna Rada, although it was also agreed with the government in July of last year, but later the Ministry of Finance decided that introduction of the tax on the withdrawn capital does not comply with EU legislation.

Already at the end of 2017, the NSSMC approved changes in regulation of stock exchanges' activity, which came into force already in year 2018, and are expected to provide some increase of opportunities for expansion of indexes and listing (registries) of exchanges, although financial thresholds still remained high for the Ukrainian market (and much higher than minimum requirements of the relevant EU legislation). Among positive innovations there was the "automatic" admission of foreign issuers' securities for trading on Ukrainian exchanges, by initiative of the stock exchange and in accordance with an agreement between it and such an issuer who is traded on the leading world's exchanges or on any stock exchange of the state - member of the EU.

At the same time, the NSSMC also presented its new *concept of pension reform*, different from that which was proposed by people's deputies and market participants in the draft law No. 6677 and registered in the parliament already in July of 2017.

At the same time, *macroeconomic conditions* and geopolitical environment gave mixed signals to investors in the local market during the 1-st quarter of 2018.

In January, the National Bank of Ukraine raised the discount rate to 16% per annum. At that time, the IMF and other donors, including the EU, delayed provision of Ukraine with regular tranches of macro-financial assistance (USD 2bn. and EUR 600M, respectively), in particular because of its failure to comply with conditions concerning adoption of anti-corruption legislation. This has exacerbated risks of financial stability and expectations on inflation, to which the NBU referred, raising its base rate in early March - up to 17%, at which level it continued to be.² In addition, international reserves of Ukraine somewhat dropped from the 4 years' peak level in the beginning of 2018 (USD 18.8 bn.) to USD 18.4 bn. in February – to the indicator that is sufficient to ensure current financial stability in Ukraine, but is formed predominantly at the expense of international creditors.

This also happened against the background of a significant increase in nominal wages and subsistence level from the beginning of year 2018. At the same time, Ukraine also was ranked the third in TOP-10 countries, in which the highest growth of real wages is predicted in this year, according to data of one of consulting companies.

Minor corrections on the stock market during the quarter occurred in the middle of January - after the IMF's announcement of delaying the tranche for Ukraine, as well as in the first decade of February and in mid-March.

According to the results of Q1 2018, *the key indicator of the stock market - the Ukrainian stock market index of the Ukrainian Exchange (UX) grew by 21.4%* (after +15.0% in Q4 2017) and thus became the leader of growth among the world's stock indexes for this period. The annual growth rate, however, slowed down to 58.8% in March of 2018 (from 71.3% in December of 2017). *The PFTS index* accelerated even more actively in the first months of 2018 - for the quarter it *added 13.4%* (after +7.3%).

Composition of the UX index basket was replenished by equities of the energy company PJSC "Turboatom", and eventually included 6 equities (4 energy companies, one machine building enterprise and one bank). The PFTS index basket, which already in the fourth quarter declined by two equities (energy companies), and at the beginning of 2018 had already 7 components (all five components of the UX index, one of machine building and

² At least until May 31, 2018, at the time of preparing of this Review.

one of telecommunication company), by the end of the 1-st quarter remained unchanged.

The stock market of Ukraine in Q1 2018 returned to decline, although the volume of trades continued to grow - at the expense of state bonds (OVDP). Activation of trades at the end of 2017 and increased number of securities on stock exchanges (+1.9%) - due to OVDPs – appeared to be temporary: in January-March of 2018 the combined stock list of all existing 4 exchanges decreased by 24.3% (for the year - almost twice).

At that, dynamics of listing (the 1-st and the 2-nd level of exchanges' lists), after expansion in Q4 2017 by almost 20% (due to OVDP), in Q1 2018 was moderately negative (-1.1%). Due to the very small number of "listing" equities and corporate bonds (5 and 11, respectively, at the end of March), their number has fallen relatively significantly - by almost 17% and over 8%, respectively. Number of OVDP, which accounted for 94% of total listing in March, for the quarter decreased by only one (-0.3%), and for the year - increased by 18.3%.

The aggregate quarterly trading volume on all exchanges in Q1 2018 increased by 14.7% (after +22% in Q4 2017) and **amounted to UAH 67.3 bn.** At that, more than 93% of the total volume fell on

contracts with *OVDP*, consequently, it was their increase by 17.8% for this quarter (after +27.9% in the previous one) which determined direction of the market volume's dynamics. Only trading in *investment certificates* grew relatively more rapidly (+94.2%, after +35.3%), but this was due only to a very low base of comparison.

At the same time, the volume of deals with *equities* in Q1 2018 fell again, albeit significantly less than at the end of 2017 (-11.3%, after -82.2%). Trade in *corporate bonds* has completely lost its pace - decreased by 0.2%, after increasing by 29.4%.

Trading in derivatives, after a rapid growth in year 2017, when only in the 4th quarter they increased by 143%, during the first three months of 2018 fell by more than a third (-35%).

In annual terms volume of trades on Ukrainian stock exchanges increased by 14.5% as a result of Q1 2018 (there was falling by 14.1% Q4 2017). The growth engine was once again an increase trading in *OVDP* (+10.2%), although trading with all other major instruments on the stock exchanges also increased over this period, in particular, in *equities* - by one third, in *corporate bonds* and *investment certificates* - respectively, almost in 4 and 8 times, in *derivatives* - almost twice, but in all cases - mainly due to the low base of comparison (Table 1).

Table 1. Dynamics of Ukrainian Stock Exchange Market in Q1 2018

Indicator/ Date (Period)	31.03.2017 (Q1 2017)	31.12.2017 (Q4 2017)	31.03.2018 (Q1 2018)	Q1 2018 Change	Annual Change in Q1 2018
Number of Securities (CB) in the listing of stock exchanges, incl:	1459	982	743	-24.3%	-49.1%
Number of securities in the registers (listing) of stock exchanges, including:	313	355	351	-1.1%	12.1%
State bonds (OVDP)	279	331	330	-0.3%	18.3%
equities*	6	6	5	-16.7%	-16.7%
corporate bonds	22	12	11	-8.3%	-50.0%
municipal bonds	0	0	0	x	x
NBU deposit certificates	0	0	0	x	x
Trading volume on the stock exchanges (total) for the year, UAH M, including:	58 711.9	58 610.3	67 252.8	14.7%	14.5%
State bonds (OVDP)	56 900.3	53 224.2	62 706.3	17.8%	10.2%
equities	425.1	637.8	565.8	-11.3%	33.1%
corporate bonds	641.0	2 505.5	2 499.5	-0.2%	289.9%
municipal bonds	0.0	0.0	0.0	x	x
NBU deposit certificates	0.0	0.0	0.0	x	x
investment certificates	5.4	18.8	36.5	94.2%	582.4%
derivatives (excl. state derivatives)	740.2	2 224.0	1 444.7	-35.0%	95.2%

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

* Up until 31.12.2017 inclusive the figure takes into account depository receipts of MHP S.A., which left the listing as at 31.03.2018.

Excluding CIF equities and investment certificates (as at 31.03.2018 they were 4 in the 2-nd level of listing - equities of three CIFs and IC of one UIF).

2. CII Market Results

2.1. Number of AMC and CII

In Q1 2018, number of asset management companies did not change - 296 (Chart 2). Nevertheless, during January-March, new companies continued to enter the market, simultaneously with closure of existing ones.

According to the UAIB data, during the quarter licenses were received by two companies.

There were also 16 new CIIs registered (after 35 in Q4 2017) - all venture ones, 14 of which - corporate (CIF), the rest - unitary (UIF). Taking into account funds which

were closed during the quarter, as at 31.03.2018, the total number of registered CII increased by 0.7% to 1,713.

Number of CII that have reached compliance with minimal assets volume (formed) grew for the second consecutive quarter - to 1,166 (+0.4%).

Thus, increasing of concentration on the CII asset management market continued, and as a whole, 284 AMCs managed from one to 30 funds, and more than 99% of all such AMCs managed at least one venture fund (the same as at the end of 2017).

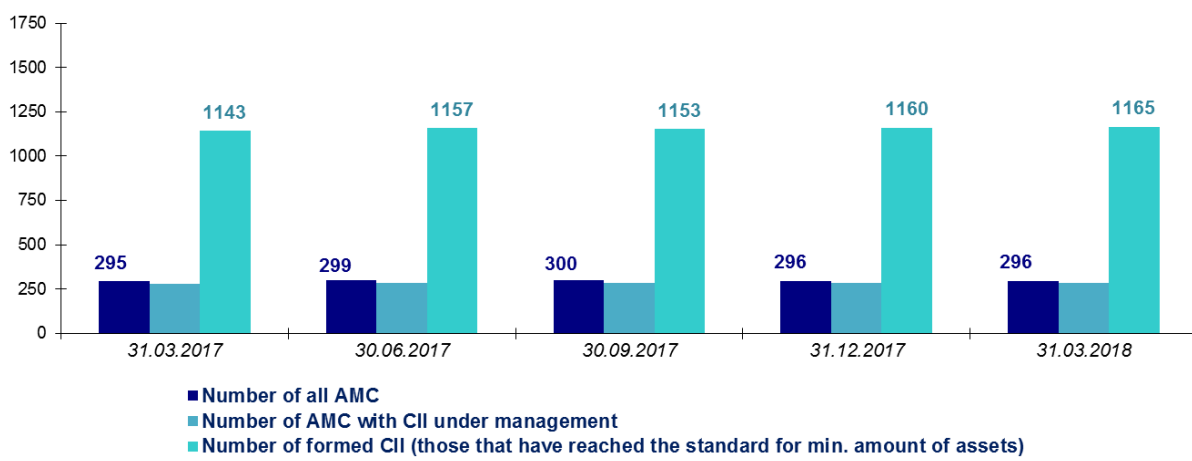


Chart 2. Dynamics of Number of AMC and CII in Q1 2017-2018

Among 21 of new venture funds formed during the quarter, 11 were CIFs, that is, they reached the minimum asset requirement level at the same time as the registration in Unified State Register of CII (USRCII), the remaining 10 - UIF.

In particular, in the 1-st quarter of 2018, one of two previously registered closed-end qualified UIF, which did not meet the standards, was eliminated.

According to the results of the quarter, the number of existing and operating funds increased only among venture UIFs (+9, +1.4%) to 757. At the same time, number of venture CIFs, as well as of closed-end non-diversified CIFs and UIFs, decreased by one, but these categories of funds remained the largest after venture UIFs.

The share of the latter among all CII in the 1-st quarter increased from 64.5% to 64.9%. The weight of all venture CII, number of which in March was 1,036 (+0.8%

for the quarter), increased from 88.6% to 88.9% (Chart 3), returning to the level in middle of 2017.

Number of formed open-ended CII, as well as of the rest diversified and specialized UIFs, remained unchanged for the quarter, but it was decided to close two interval diversified funds, so the sector will soon be shrinking.

In total, there were the following numbers of "recognized" CII remained as at the end of March - open-ended - 19, interval-23 (Table 2).

During the year, the number of funds decreased among interval, venture UIF and closed-end non-diversified CIF. At the same time, the number of recognized closed-end non-diversified UIF increased and the most increased the number of venture CIFs (+14.3%); also, during the year appearance of one closed-end qualified UIF was recorded.

Table 2. Dynamics of the Number of CII that Have Reached Compliance with Standards, by Types and Legal Forms in Q1 2017-2018

Date / Period	Total	UIF*										CIF*		
		OD*	OS*	ID*	IS*	CD*	CN*	CS*	CQ*	CV*	ID*	CN*	CV*	
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	
31.12.2017	1160	14	5	20	3	4	31	1	1	748	0	53	280	
31.03.2018	1166	14	5	20	3	4	30	1	1	757	0	52	279	
Q1 2018 Change	6	0	0	0	0	0	-1	0	0	9	0	-1	-1	
	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	-3.2%	0.0%	0.0%	1.2%	-	-1.9%	-0.4%	
Annual Change	23	0	0	-1	0	0	2	0	1	-11	0	-3	35	
	2.0%	0.0%	0.0%	-4.8%	0.0%	0.0%	7.1%	0.0%	-	-1.4%	-	-5.5%	14.3%	

*UIF - Unit Investment Funds, CIF - Corporate Investment Funds; OD - open-ended diversified CII, OS - open-ended specialised CII, ID - interval diversified CII, IS - interval specialised CII, CD - closed-end diversified CII, CN - closed-end non-diversified (ex. venture) CII, CS - closed-end specialised CII, CQ - closed-end qualified CII, CV - closed-end venture CII (non-diversified, with private issue).

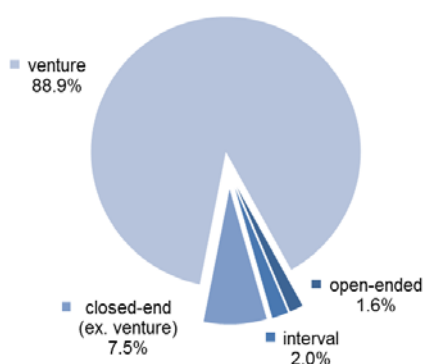


Chart 3. CII that Have Reached Compliance with Standards, by Fund Types as at 31.03.2018

The number of CII that have not yet reached the minimum asset size ratio, among all registered funds under AMC management increased from 63 to 80 in Q1 2018 (to 6.4% of all CII under management).

According to UAIB, 61 funds in the 1-st quarter were already in the process of liquidation or had just started it (5.2% of all recognized and operating CIIs), after 56 in the 4th quarter of 2017 (4.8%). Among them there were two open-ended, 5 interval and three closed-end diversified UIFs, three closed-end non-diversified UIFs and 6 of such CIFs, 49 venture UIFs and two CIFs.

So, taking into account that the number of funds which are ready to enter the market exceeds the number of those ones which are in the process of closing, it will give impetus to further quantitative growth of funds industry.

Number of CII with a public issue (offer) in the 1st quarter of 2018 did not change - 95, at that it was constant in all categories of such funds. (Table 3).

Number of AMCs managing such CIIs decreased by one, to 39, while in the sector of open-ended CII it remained at the level of 11 (excluding AMC of funds that are liquidated - 10).

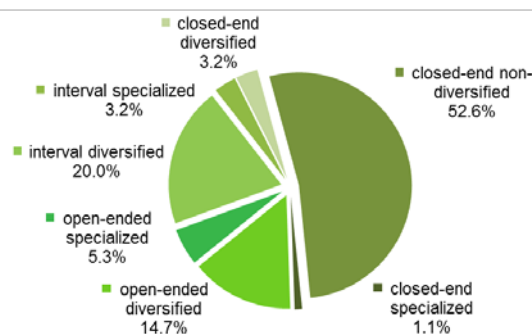


Chart 4. CII with Public Issue as at 31.03.2018

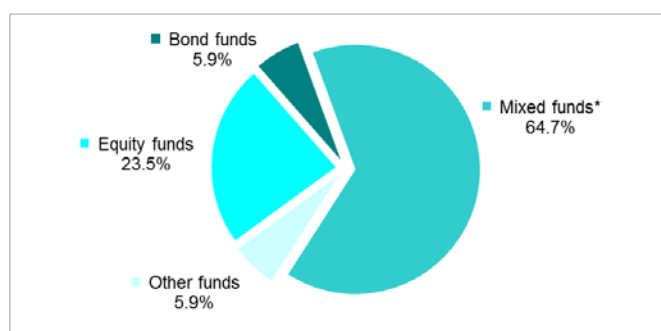
Table 3. Dynamics of Number of CII with Public Issue in Q1 2018

CII Type	Total	Open-ended			Interval			Closed-end			
		D*	S*	Total	D*	S*	Total	D*	N*	S*	Total
31.03.2017	92	14	5	19	20	3	23	3	46	1	50
30.06.2017	93	14	5	19	20	3	23	3	47	1	51
30.09.2017	94	14	5	19	20	3	23	3	48	1	52
31.12.2017	95	14	5	19	19	3	22	3	50	1	54
31.03.2018	94	14	5	19	19	3	22	3	50	1	54
Q1 2018 Change	-1	0	0	0	0	0	0	0	0	0	0
	-1.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Annual Change	2	0	0	0	-1	0	-1	0	4	0	4
	2.2%	0.0%	0.0%	0.0%	-5.0%	0.0%	-4.3%	0.0%	8.7%	0.0%	8.0%

* D - diversified, S - specialised, N - non-diversified

Table 4. Dynamics of Number of Diversified CII with Public Issue by Fund Classes (According to Structure of Assets) in Q1 2017-2018

Date/Period	Total	Equity funds	Bond funds	Mixed funds*	Money market funds	Other funds
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
31.12.2017	36	7	2	26	0	1
31.03.2018	34	8	2	22	0	2
Q1 2018 Change	-2	1	0	-4	0	1
	-5.6%	14.3%	0.0%	-15.4%	-	100.0%
Annual Change	-2	0	-3	6	0	-5
	-5.6%	0.0%	-60.0%	37.5%	-	-71.4%



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

Chart 4. Diversified CII with Public Issue by Fund Types as at 31.03.2018

There were 34 **diversified and specialized CII with public issue** in Q1 2018 (Table 4).

Number of equity funds increased by one - they included 5 open-ended and 3 interval CII (after 3 and 4 at the end of 2017, respectively).

There were 2 *bond funds* - one open-ended and one interval CII (compared with Q4 2017, one open-ended fund was added and one interval CII turned out).

The number of mixed funds became 22 (-4 for the quarter), including 10 open-ended, 10 interval funds, and 2 closed-end CII. These funds remained the largest category of CII by class of assets (Chart 4).

“Other funds”, according to classification based on assets structure³, were one open-ended and one interval CII.

2.2. Regional Breakdown of AMC and CII

In Kyiv and metropolitan area in the 1-st quarter of 2018, *the total number of acting AMCs* decreased by one - to 215 (Chart 5). At the same time, one new AMC was created here.

In the TOP-5 regions by the number of AMC, in addition to Kyiv, as at the end of March 2018, there were: in Dnipropetrovsk and Kharkiv regions - 19 companies in each of them, in Lviv's region - 8, in Odessa's region - 7.

The rest of regions as a whole had 28 AMCs, or 9.5% of the market (by one AMC more than at the beginning of the year).

During the quarter one new AMC was created in Vinnytsia - the first one, which at the end of March had no funds under management.

In other regions, the number of AMC has not changed for the quarter, and finally, the market share of Kiev in terms of number of professional participants during this time decreased from 73.0% to 72.6%.

Number of CIIs under management in Kyiv and its region continued to grow in the Q1 2018, albeit at a slower pace than in Q4 2017 (by 4 funds, or 0.4%) - to 903 funds. As a whole in Ukraine it increased in January-March by 15, or by 1.2%. As a result, the weight of Kyiv and its region by this indicator, in contrast to the previous quarter, decreased from 73.2% to 72.6% (Chart 6).

Among other regions, in the first quarter of 2018, the share of Lviv by total number of CII under management grew - from 4.4% to 4.9%, with increasing of the number of funds here by almost 13% (by 7 funds). Ivano-Frankivsk also increased its weight - from 2.7% to 2.9% due to an increase of the number of funds by 9% (by 3 funds).

Kyiv also held leadership by *number of venture CIIs under management*, and its share in the quarter increased from 71.0% to 71.1%, while among other regions-leaders only Lviv grew from 5.0% to 5.7%.

Kyiv was also the first by *number of non-venture CII under management*, and the share of the metropolitan region increased from 79.9% to 80.8%.

By number of NPFs under management, Kyiv's leadership was even more expressive and stable during Q1 2018 - 81.0% (Chart 6).

In breakdown of CII assets under management by regions in Q1 2018, market concentration increased in favor of leading regions, in

³ See Ренкінги «ІСІ (диверсифіковані публічні) - за класами фондів» and Методику ренкінгування КУА та ІСІ за результатами їхньої діяльності on UAIB web site: <http://www.uaib.com.ua>.

particular, the share of Kiev - from 80.2% to 80.3%, and of Lviv - from 2.5% to 3.0%. The weight of the regions outside the TOP-5 has decreased insignificantly, within 2.1% (Chart 6).

Thus, the regional concentration of CII assets under management and of number of funds (total and of venture ones, in particular) increased in Q1 2018 in favor of leading regions, while the number of AMC's and CII's, excluding venture ones, somewhat weakened.



Chart 5. Regional Breakdown of AMC Number as at 31.03.2018

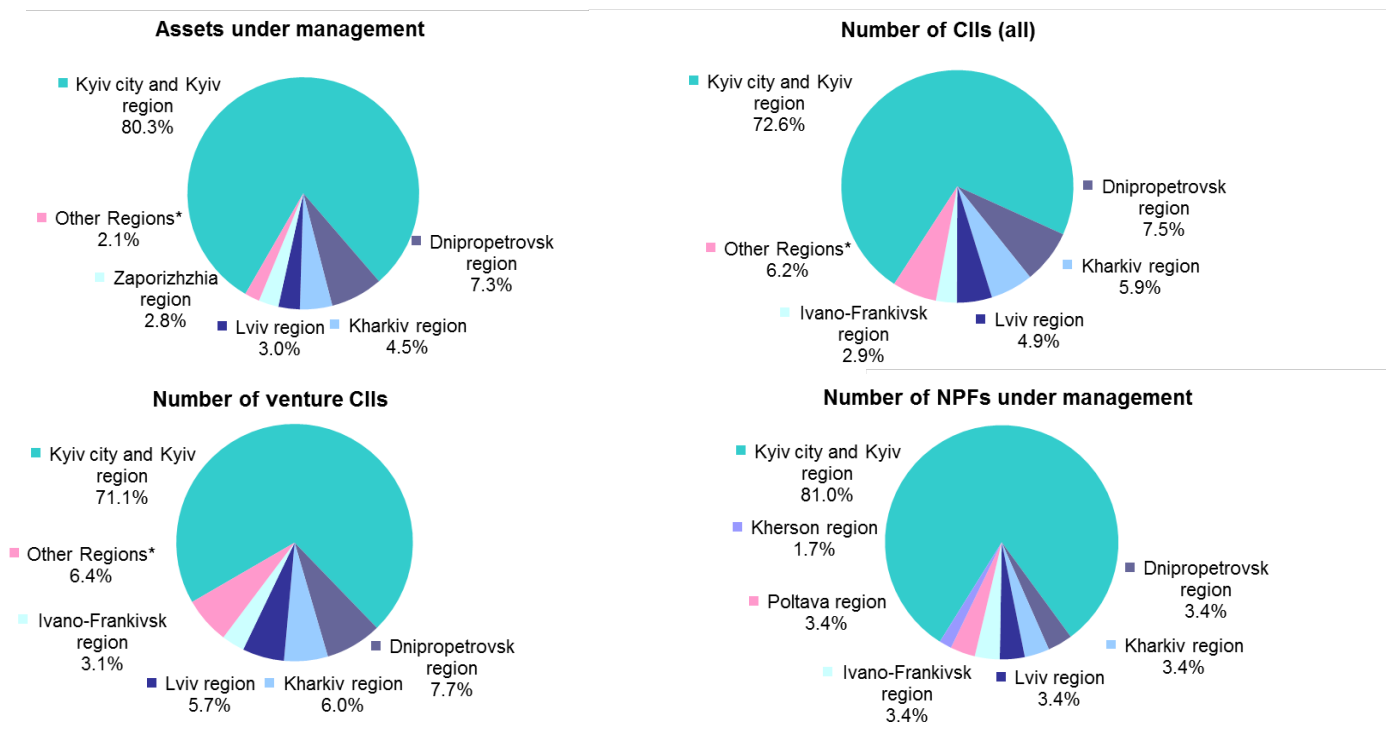


Chart 6. Regional Breakdown of CII by Number and Value of Their Assets under Management as at 31.03.2018

2.3. Assets and Net Assets of CII

In Q1 2018, the aggregate total assets of acting CIIs that have reached the minimum asset size ratio ("recognized" CII) decreased by UAH 2,290.6 M (-0.9%, after +5.8% in the 4th quarter of 2017). As at 31.03.2018 they amounted to UAH 261,188.7 M. At that, the number of funds that reached the standards by the end of the quarter and submitted the reported data has increased (+1.7%).

Assets of all CII under management, including those that have not yet reached the standard, grew by 4.4% in Q1 2018 to UAH 275,466.6 M.

Decline of the "recognized" CIIs' assets was due to closed-end CII with private issue, including venture ones, whose total assets decreased by UAH 2,449.6 M for January-March (-1.0%, after +5.9% in October-December of 2017), despite an increase in the number of funds that provided information for the quarter, by 1.7%. As at 31.03.2018, the sector's assets amounted to UAH 252,508.2 M (Chart 7).

Assets of other closed-end CII with private issue decreased by 7.4% for the quarter (after growing by 2.2% in the 4th quarter of 2017) - to UAH 5,229.1 M, with decrease of the number of funds which submitted the reporting data by 2 (or - 6%).

Other CII sectors – open-ended and interval funds, as well as closed-end CII with public issue, continued to grow and as at 31.03.2018 they had total assets of UAH 3,451.5 M, including UAH 83.2 M – in open-ended funds, which increased by 10.8% in Q1 2018 (after +4.5% in the previous quarter).

Accelerated growth of open-ended funds was contributed by continued livelier growth of stock indices (by 21% by UX index), as well as by increase of net inflows in the 1-st quarter.

Aggregate assets of CII (excluding venture) at the end of March of 2018 grew to UAH 8,680.5 M (+1.9%, after +3.8% in Q4 2017).

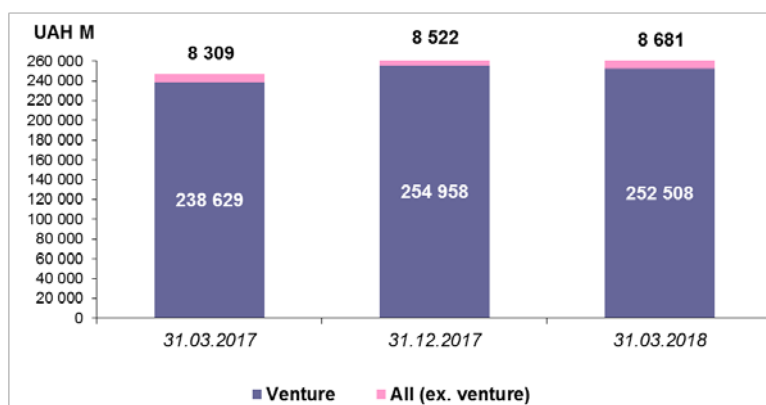


Chart7. Dynamics of CII Assets Value in Q1 2017-2018

Value of net assets of the formed CII (operating funds that have reached the standard) in the Q1 2018 also decreased - by UAH 4,213.8 M (-2.0%, after +4.4% in Q4 2017). As at 31.03.2018 it amounted to UAH 209,227.5 M (Table 5).

Sectors of open-ended, interval and closed-end CII with public issue grew for the quarter, as well as their total assets.

In particular, net assets of open-ended funds accelerated growth to +10.7% (from +4.5% in the previous quarter). Rising was provided again, in the first turn, by portfolio investments' returns, while capital flows brought 27% of quarterly growth of sector's NAV (after 5% in Q4 2017).

Sector of interval CII continued to grow despite decrease in the number of reporting funds by 2 (or +11%).

Net assets of closed-end CII with public issue soared largely due to bigger amount of funds that were used in calculations in Q1 2018 compared to Q4 2017 (by 2 funds, or +5%).

As at 31.03.2018 NAV of open-ended CII amounted to UAH 82.9 M, interval - UAH 80.8 M, closed-end CII with public issue - UAH 3,028.8 M.

By the end of March of 2018, the aggregate NAV of CII (excluding venture) grew to UAH 8,309.9 M (+0.7%, after +3.1% in Q4 2017).

NAV of venture CII decreased by 2.1% (after growth by 4.5%), to UAH 200,918 M.

Net assets of closed-end CII as a whole - at the expense of funds with a public issue, showed an increase for the quarter (+0.5%, after +3.1% in the previous one).

Table 5. Dynamics of CII NAV by Fund Types in Q1 2017-2018, UAH M

Funds	31.03.2017	31.12.2017	31.03.2018	Q1 2018 change	Annual change
Open-ended	61.04	74.82	82.86	10.73%	35.73%
Interval	66.41	78.36	80.82	3.13%	21.70%
Closed-end (ex.venture)	7 810.63	8 103.44	8 146.24	0.53%	4.30%
with public issue	2 738.99	2 646.68	3 028.79	14.44%	10.58%
with private issue	5 071.64	5 456.76	5 117.45	-6.22%	0.90%
All (ex. venture)	7 938.08	8 256.63	8 309.91	0.65%	4.68%
Venture	196 591.52	205 184.65	200 917.59	-2.08%	2.20%
All	204 529.59	213 441.28	209 227.51	-1.97%	2.30%

* Acting CIIs that have reached the minimum asset size (which were recognized as such by NSSMC), are managed by the AMC and reported for the relevant period (as at the reporting date).

As a consequence of continued weakening of NAV growth of closed-end CIIs compared to open-ended and interval ones, the weight of the first in aggregate net assets of CII (excluding venture) continued to decline, although it still remained significant - 98% (Chart 8).

Funds with a public issue among them amounted to 36.5% (after 32.1% in Q42017).

The share of open-ended CII increased from 0.9% to 1.0%, and of interval ones - also approached to 1%.

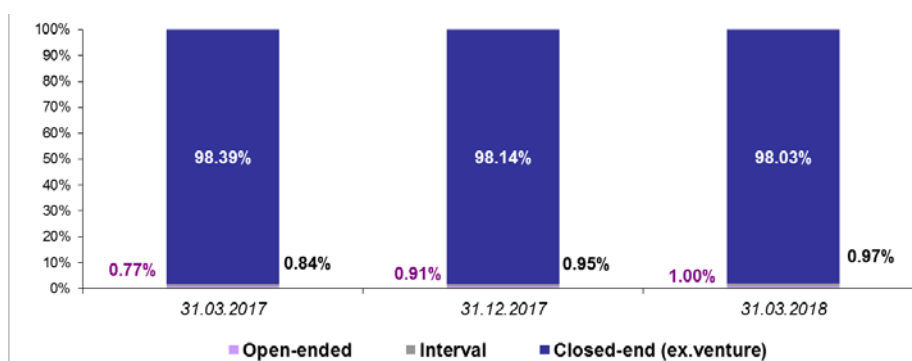


Chart 8. Dynamics of Non-Vventure CII NAV Breakdown, by Fund types in Q1 2017 - 2018

Venture CII, due to reduction of NAV in Q1 2018, against the backdrop of growth of the remaining sectors, reduced the CIIs' market share for the quarter from 96.1% to 96.0%.

The shares of open-ended and interval funds, in conditions of a relatively small size of these sectors, despite a significant increase of NAV in the 1-st quarter, remained within 0.04% of the total net assets of all CII (Chart 9).

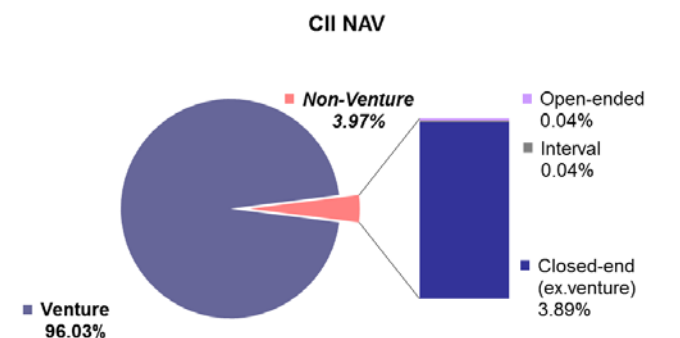


Chart 9. CII NAV Breakdown by Fund Types as at 31.03.2018

2.4. Net Flow of Capital in Open-Ended CII

In January-March of 2018, net capital flow in open-ended CII remained positive for the fourth consecutive quarter and significantly increased compared to the last quarter of 2017.

Correlation of dynamics of the Ukrainian Equity Index (UX) with flow of capital in the sector at that time was maintained. Thus, the influx accelerated sharply in January, when these funds received the largest additional investments (Chart 10). Further, along with weakening of the indicator's growth, dynamics of funds' net sales also weakened and in March the inflow transformed in net outflow; this can be explained by fixation of profits, after increase of funds' assets value, along with rise of stock indices by 13-21% for the quarter (according to PFTS and UX indexes).

Additional investments, as before, continued to be received mainly from local retail investors, as well as from foreign corporate investors, whose aggregate assets in the

sector grew relatively the most for the quarter. Number of investors in both of these categories, in contrast to the rest ones, also increased in the 1-st quarter.

Out of all 17 acting open-ended CIIs, 13 funds had an inflow or outflow of capital in January-March of 2018 (the same as in October-December of 2017). At that, *there were only 5 funds with a net inflow*, and their aggregate additional income for the 1-st quarter amounted to more than UAH 5 M (after +UAH 1.7 M, which were received by 7 funds with net inflow in Q4 2017). 58% of this amount were received by one fund, the net inflow of which in the 1-st quarter exceeded the aggregate index of the entire sector of open-ended CII more than double (in Q4 2017 - 86% and almost by 9 times, respectively).

During each month in Q1 2018, the number of funds with net inflow ranged from 7 in January to 5 in February-March.

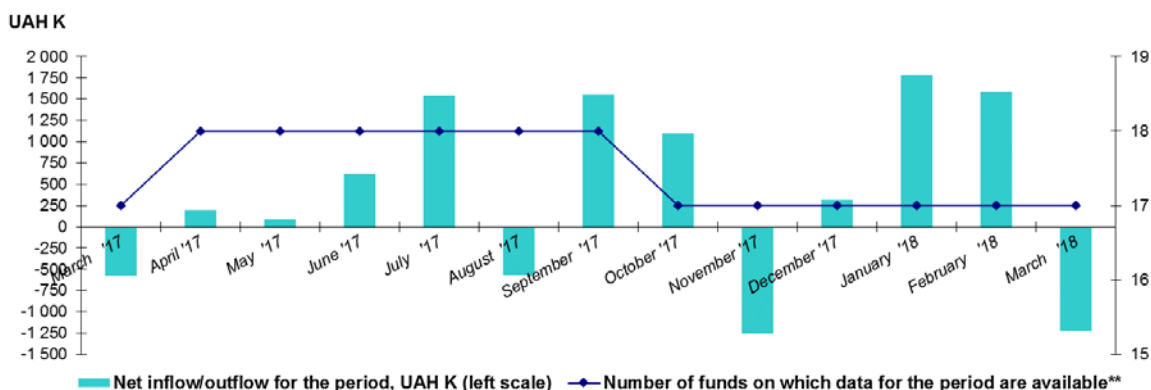


Chart 10. Monthly flow of Capital in Open-Ended CII in March of 2017-2018*

As a whole for Q1 2018, the total net inflow of capital in open-ended CII amounted to over UAH 2.1 M (after UAH 0.2 M in Q4 2017) and, thus, was practically equal to annual inflow for the whole year of 2017 (Chart 11).

Influence of capital flow on dynamics of open-ended funds' NAV increased in the 1-st quarter - it accounted for 27% of its quarterly growth (after 5% in Q4 2017).

Annual capital flow (for 12 months ended in March of 2018) in open-ended CII was positive for the third consecutive quarter and increased to **UAH 5.7 M** (from UAH 2.2 M at the end of 2017). This took place in conditions of stock market growth at that time by 31-59%.

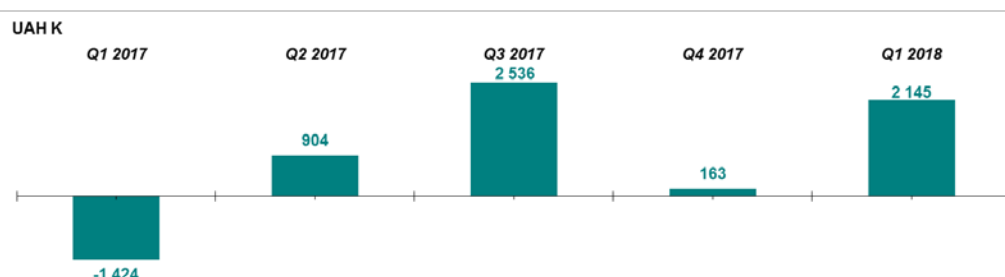


Chart 11. Net Flow of Capital in Open-Ended CII in Q1 2017-2018

Inflow of capital into investment funds industry of the European Union in January-March of 2018 increased: all funds as a whole received in total an additional investment of EUR 214 bn.⁴, over three months, after EUR 189 bn. in October-December of 2017, although compared to Q1 2017 (EUR 262 bn.) it decreased.

More than half of the quarterly inflow came to the industry in January (EUR 142 bn.), with UCITS⁵- funds traditionally being the main engine, which had record net sales this month (EUR 126 bn.).

The quarterly net inflow into UCITS totaled EUR 175 bn. (after EUR 170 bn. in Q4 2017 and EUR 202 bn. a year ago).

At the same time, in spite of the additional net income from investors at that time, net assets of the fund industry in the EU decreased by 0.1% from the beginning of 2018 to EUR 15,606 bn., due to significant volatility in the markets and their subsidence in February-March. UCITS' total NAV lost 1.3% in March, but for the entire first quarter - only 0.03% and was at the level of EUR 9.728 bn.

Equity funds were the most popular among UCITS funds for investors in January-March of 2018, in contrast to the last three months of 2017 (EUR 87 bn., after EUR 56 bn. in October-December of 2017 and EUR 29 bn. a year ago).

Bond funds that led by net inflow during several consecutive quarters up till the end of year 2017, in Q1 2018 received an additional EUR 27 bn. (after EUR 75 bn. in the 4-th and the 1-st quarters of 2017), that was only the third indicator.

2.5. Investors of CII

In Q1 2018, aggregate funds of **resident legal entities** in CII declined, but remained the largest investors in terms of their assets: their share in NAV of all CII as at 31.03.2018 amounted to 63.6% (after 66.5% at the beginning of the year).

The aggregate value of these investors' assets decreased for the quarter in all sectors of CII, except for interval ones, where their share increased from 16.5% to 18.4% at the end of March, with the largest share in

And mixed funds had the second largest inflow for this period – EUR 57 bn., after EUR 54 bn. in October-December of 2017 and EUR 38 bn. a year ago).

Money market funds again suffered a quarterly outflow – -EUR 2 bn. (after -EUR 3 bn. in Q4 2017 and against a net inflow of EUR 51 bn. a year ago).

Net inflow into AIF funds⁶ in January-March of 2018 increased more than double from October-December of 2017 - from EUR 19 bn., to **EUR 39 bn.**, although it weakened compared to EUR 60 bn. a year ago. The largest inflow to the sector was also in January (EUR 16 bn.).

“Other funds” that received net EUR 27 bn. (after EUR 25 bn. in October-December of 2017 and EUR 35 bn. a year ago) **remained the most popular among investors in AIF funds in January-March of 2018**. This category includes equity funds, bond and mixed funds in Ireland due to the lack of data on their breakdown across these sectors.

Mixed funds among AIF received an additional EUR 13 bn. (after EUR 10 bn. in Q4 2017 and EUR 13 bn. a year ago).

Real estate funds also had a positive inflow of EUR 9 bn. (after EUR 7 bn. in Q4 2017 and the same one - a year ago).

Bond funds, equity funds and money market funds were outsiders among AIF in Q1 2018, with outflows of about EUR 4 bn. from the first two ones and EUR 2 bn. from the last one, respectively.

venture funds (64.8%), and the smallest one - *in open-ended* CII (9.2 %, Chart 12)⁷.

Ukrainian retail investors (individuals-residents) in Q1 2018 increased their aggregate investments in all sectors of CII by fund types, both with public and private issue.

Assets of these investors *in open-ended* funds have once again increased the most in absolute terms among all categories of depositors, although by relative growth rate

⁴ According to available data for 28 countries whose associations are members of EFAMA (24 EU Member States, as well as Liechtenstein, Norway, Switzerland and Turkey) and Poland - a former EFAMA member, see [EFAMA Investment Fund Industry Fact Sheet March 2018](http://www.efama.org) on web site <http://www.efama.org>.

⁵ UCITS (Undertakings for Collective Investment in Transferable Securities) - enterprises for collective (joint) investing in negotiable securities (which are in circulation in regulated markets); are open-ended funds with public issue (proposal) and stringent requirements to the composition, quality, liquidity and structure of assets. They are regulated by the relevant Directive (Directive

2009/65 /EU of 13 July of 2009, and amended by Directive 2014/91/EU of 23 July of 2014) and other EU legislation.

⁶ AIF (Alternative Investment Funds) - Funds of alternative investment; actually include all other non-UCITS regulated funds. The companies that manage such funds are regulated by AIFMD Directive (Directive 2011/61 EU of 8 June of 2011).

⁷ Excluding CII bearer securities.

they gave way to foreign corporate investors. Weight of local retail investors in the sector increased in the first quarter from 75.9% to 76.2%.

In *venture CII*, assets of these investors grew in Q1 2018 more than in other sectors of CII, and by volume and relative rate they gave way only to foreign corporate investors; this increased the share of the first ones in the sector's NAV from 9.4% to 9.8% for the quarter.

The largest share among all categories of investors in CII by fund types in March of 2018 remained with resident individuals in *interval funds* - more than 79.9% (after 82.1% at the beginning of the year).

Aggregate weight of these investors in *all CII* continued to grow - from 11.1% to 11.5%.

Aggregate value **of foreign investors' investments** in Q1 2018 increased in all sectors of CII, except for assets of foreign enterprises in closed-end CII (excluding venture).

Almost all growth of foreign investors' total assets, which was the largest among all categories of investors both in absolute and relative terms, was again provided by *non-resident legal entities*, at that increase in venture CII somewhat exceeded the overall increase of these investors' assets in all CII. Finally, the weight of corporate non-resident investors in venture funds increased from 22.7% to 25.3% for the quarter, while in all CII - from 22.4% to 24.8%.

In January-March of 2018, *foreign citizens* slightly increased their weight only in *open-ended CII*, although it remained the smallest among various categories of participants of these funds - within 0.2% of their aggregate NAV.

Weight of all *non-resident investors* in venture funds increased from 22.8% to 25.4% for the quarter, while in all CII - from 22.5% to 25.0%.

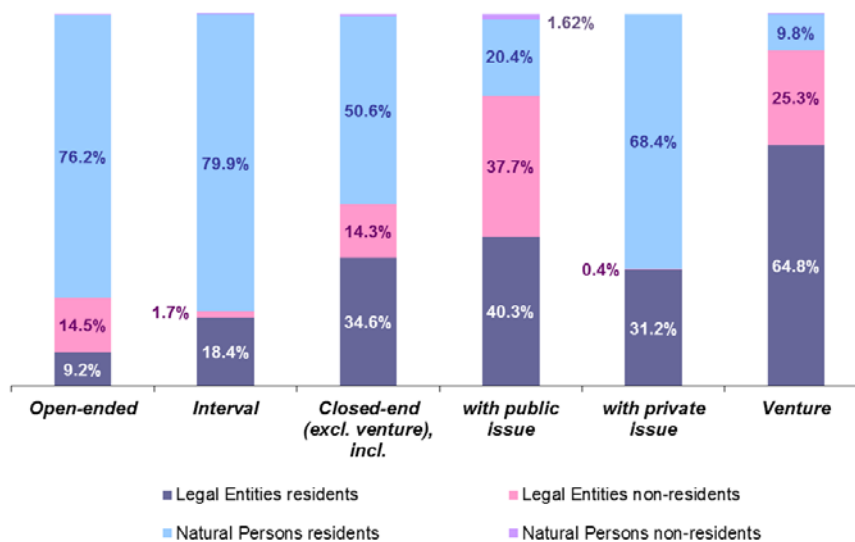


Chart 12. CII NAV Breakdown by Categories of Investors as at 31.03.2018, share in NAV

Number of CII investors decreased in Q1 2018 by 0.1% (after +13.8% in Q4 2017), mainly due to *interval CII* dynamics, with the closure of two such funds, where it contracted by 169 (-0.1%), and *venture funds* (by 32, or -0.8%).

At the end of March of 2018, the sector of *interval CII* retained the largest number of investors – 249,879, including 249,839 – of local retail ones.

There were 3,739 investors in *venture funds* as at 31.03.2018, including 2,846 of local corporate investors.

In *open-ended funds*, number of participants increased by 24 (+1.4%) in the quarter, including by 21 retail resident investors. For the year number of investors in the sector increased by 48 (+2.8%), including Ukrainian

citizens - by 43 (+2.6%). As at 31.03.2018 there were 1,735 investors in the sector.

Number of investors in January-March of 2018 decreased relatively the most in *closed-end CII with private issue* (-1.7%), although they became fewer here only by 4 – total of 234.

Total number of CII investors decreased by 1.7% for the year by the end of March.

As a whole, as at March 31, 2018, CII had 259,706 investors (Table 6), 98.6% of which were retail investors - residents of Ukraine, 96.2% were participants of interval funds, 0.7% of open-ended ones, 1.6% of closed-end CII with public issue and 1.4% - of venture CII.

Table 6. CII Investors by Categories, Number and Share of the Total Number as at 31.03.2018

Funds	Legal Entities				Natural Persons				Total
	residents		non-residents		residents		non-residents		
Open-ended	18	1.04%	9	0.52%	1 707	98.39%	1	0.06%	1 735
Interval	21	0.01%	1	0.00%	249 839	99.98%	18	0.01%	249 879
Closed-end (excl. venture), incl.	351	8.06%	22	0.51%	3 972	91.25%	8	0.18%	4 353
with public issue	173	4.20%	15	0.36%	3 923	95.24%	8	0.19%	4 119
with private issue	178	76.07%	7	2.99%	49	20.94%	0	0.00%	234
All funds (excl. venture)	390	0.15%	32	0.01%	255 518	99.82%	27	0.01%	255 967
Venture	2 846	76.12%	388	10.38%	497	13.29%	8	0.21%	3 739
All	3 236	1.25%	420	0.16%	256 015	98.58%	35	0.01%	259 706

The total number of CII investors increased in Q1 2018, primarily due to **resident individuals**, the number of which decreased by 117, although it equaled only 0.05% (after +14.3% in Q4 2017).

In *open-ended CII*, their number increased by 21 (+1.2%, after -0.1%), to 1,707 - 98.4% of these funds' investors (after 98.5%). Also, there were two more of them (+0.4%) in *venture funds* (after +3.3% in Q4 2017).

In other sectors of CII, with saw closure of several funds, the number of these investors decreased in the 1-st quarter, including in *interval ones* – by 137 (-0.1%), where they accounted for almost 100% of all investors. In *closed-end CII with private issue* (excluding venture), they decreased by 3 (-5.8%).

Number of resident legal entities which were investors in CII, in January-March of 2018 contracted in all CII sectors by fund types and types of issue - by total of 71 (-2.1%, after -9.7% in Q4 2017).

In absolute terms, their number decreased the most in *venture funds* - by 32 (-1.1%), to 2,846, where at

the end of March they remained the biggest category comprising 76.1% of all investors in these funds.

In relative terms, they decreased the most in *interval CII*, namely by 58% (29 entities), to 21.

Foreign corporate investors as a whole also decreased their presence in CII, albeit mainly in *interval funds* (-2, -66.7%). In *venture funds* there were only 3 fewer of them (-0.8%), where they accounted for 10.4% of all investors.

In other *closed-end CII with private issue (excluding venture)* and in *open-ended CII*, their number in the 1-st quarter increased significantly, i.e. by 16.7% and by 80%, respectively, although it was only one such investor in the former and 4 of them in the latter fund categories. Non-resident enterprises made up 0.5% of all investors in the sector of *open-ended CII* in March 2018, and in *closed-end CII with private issue (excluding venture)*, they accounted for almost 3% (after 0.3% and 2.5% at the beginning of the year, respectively).

2.6. CII Asset Structure

In Q1 2018, the following key changes took place in CII investments' structure with usage of **stock instruments**:

growth of the **securities**' weight in all categories of funds by CII types, except for venture ones (Table 7), which occurred against the backdrop of an increase in the *aggregate value of investments in securities* in each of these sectors of CII (excluding venture), at that for certain types of securities there was:

growth of aggregate investments in *state bonds* and of their share in assets of open-ended CII and of closed-end funds with private issue; reduction - in other sectors of CII;

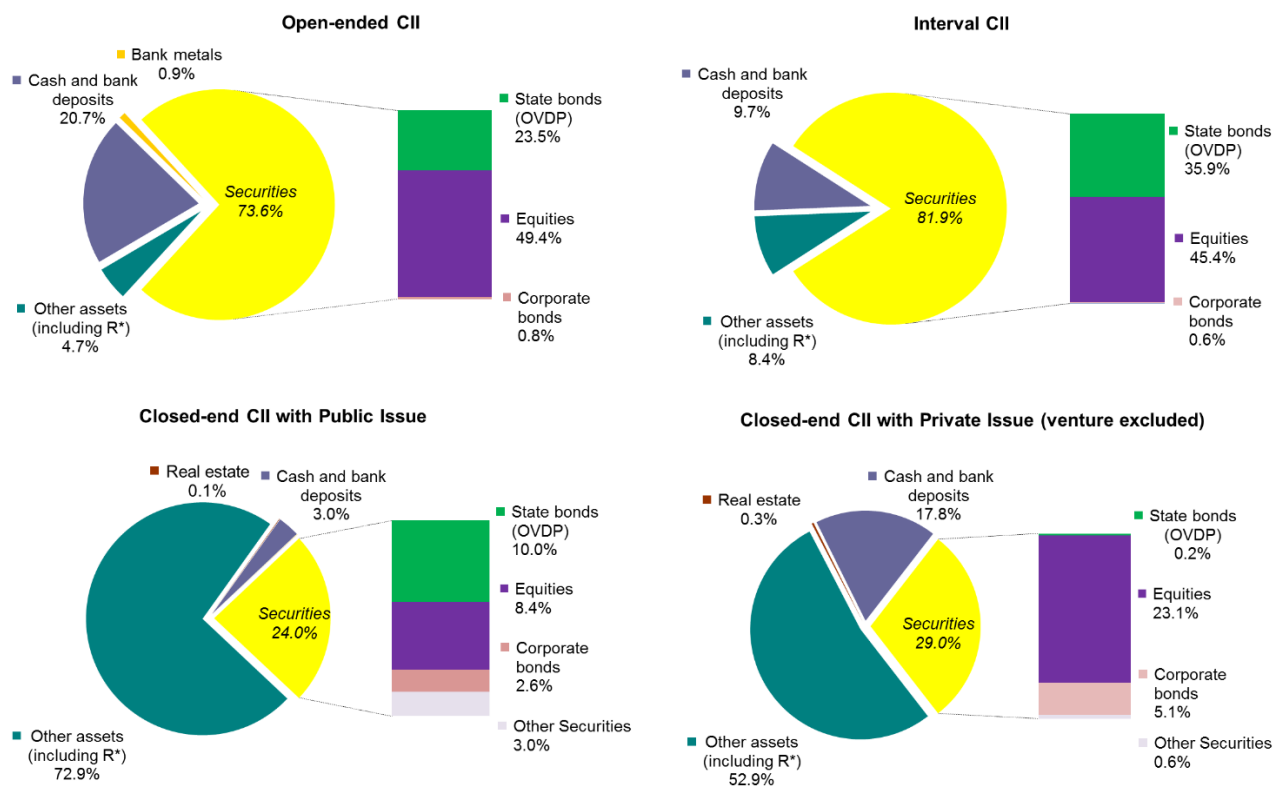
increase of *equities*' value in all sectors of CII, except for venture ones, where their share in assets also decreased (this took place also in closed-end CII with public issue, despite growth of aggregate investments in equities in them);

growth of aggregate *investments in corporate bonds* in open-ended and closed-end funds - by both types of issues (excluding venture), and decrease - in interval and venture CII (with corresponding changes of these instruments' shares in assets of all sectors);

increase of aggregate value of investments in *promissory notes* in closed-end CII (including venture ones), along with increasing of their weight in them.

Table 7. Changes in the Structure of Aggregate CII Portfolios by Fund Types in Q1 2018

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.	%
Other assets (including R*)	-1.30	-21.5%	2.79	49.3%	1.19	1.7%	-0.37	-0.7%	0.33	0.4%
Real estate	-	-	-	-	-0.01	-11.0%	0.02	7.4%	0.19	7.1%
Cash and bank deposits	-5.25	-20.2%	-3.33	-25.5%	-3.50	-53.7%	-1.99	-10.1%	0.17	13.0%
Bank metals	-0.12	-11.2%	-	-	-0.01	-25.8%	-	-	0.00	-12.4%
State bonds (OVDP)	1.66	7.6%	-4.94	-12.1%	-1.27	-11.3%	0.08	44.5%	-0.02	-38.7%
Equities	4.60	10.3%	5.51	13.8%	-0.11	-1.3%	1.72	8.0%	-0.74	-9.4%
Corporate bonds	0.40	101.8%	-0.04	-6.4%	1.19	81.8%	0.30	6.3%	-0.10	-3.1%
Promissory notes	-	-	-	-	2.52	520.9%	0.25	78.3%	0.10	2.2%
Mortgage	-	-	-	-	-	-	-	-	0.00	-29.2%
Other securities	-	-	0.00	-0.05	-	-	-	-	0.05	15.9%
Securities	6.66	10.0%	0.54	0.7%	2.32	10.7%	2.34	8.8%	-0.70	-4.4%


Chart 13. Asset Structure of CIIs (excluding Venture) by Fund Types as at 31.03.2018

In venture CII, assets in equities decreased by more than UAH 2 bn., this, in particular, was related to the supervisory actions of the NSSMC in relation to stopping of trading in securities which were in funds' assets by a number of issuers⁸, in connection with the increased, in the opinion of the regulator, risks of these instruments. At the same time, the total number of issues of equities in the portfolios of venture funds increased during this time.

Thus **securities** as a whole, remained the key component of assets *in open-ended and interval CII* in Q1

2018, which grew as at 31.03.2018 to 73.6% and 81.9% (from 67.0% and 81.3%, respectively, in Q4 2017). *In closed-end CII with public issue*, the weight of stock instruments grew from 21.7% to 24.0% in January-March of 2018, and in ones with *private issue* (excluding venture) from 26.7% to 29.0% (Chart 13). *In venture funds*, it has decreased insignificantly - from 15.9% to 15.2% (Chart 14).

⁸ See <https://www.nssmc.gov.ua/2018/03/16/nktspr-zaboronila-torgvlyu-tsnimi-paperami-12-ementv/>

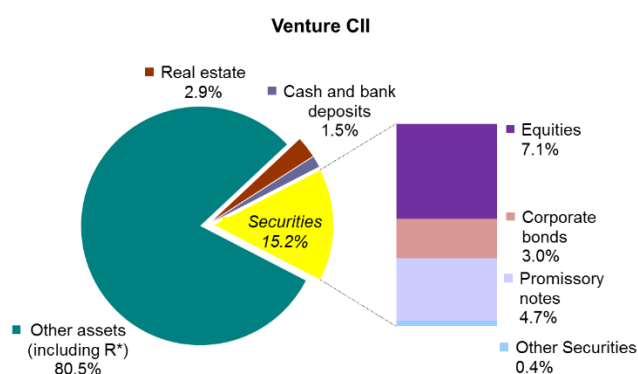


Chart 14. Asset Structure of Venture CII as at 31.03.2018

Cash and bank deposits in funds' assets during this period decreased both in absolute terms and in relation to aggregate assets of different sectors of CII (excluding venture). In the latter, they grew by UAH 412.2 M, and their weight in total sector' assets increased from 1.3% to 1.5% for the quarter. In open-ended CII, it dropped from 26.0% to 20.7%.

The largest component of *venture CII*s' assets - "**other**" assets⁹ – continued to grow in Q1 2018, from 80.1% to 80.5% (Chart 14). This was due to a much larger reduction of assets in equities and despite decrease of aggregate value of such assets in the sector by UAH 740.7M.

Total investment of *venture funds* in **real estate** in Q1 2018 increased (+UAH 429.8 M) - as well as their weight in assets of these CII (from 2.7% to 2.9%).

Among stock instruments, the aggregate value and weight of *venture CII*s' investments in *other securities and derivatives* continued to increase dynamically, it increased also in *promissory notes*, after reduction in the 2nd-4th quarters of 2017 (from 4.6% in early 2018 to 4.7% in March).

Securities portfolio of all CII as a whole, in accordance with the above-mentioned changes, continued to decrease in Q1 2018. Aggregate value of securities and derivatives in CII assets decreased by another UAH 1,868.8 M, or 4.4% (after -5.2% in Q4 2017). As at 31.03.2018, it amounted to **UAH 40,751.8M**.

Decrease of CII aggregate investments in securities as a whole was due almost entirely to reduction of aggregate investments in *equities*, and also – to by an order of magnitude smaller reduction in *corporate bonds* (in both cases - at the expense of *venture funds*). *Equities* lost weight in the consolidated CII stock portfolio for the

quarter from 50.4% to 47.9%. At that, *bonds* have added due to a considerably smaller reduction - from 19.0% to 19.3% in the structure of the CII's financial portfolio.

Value of CII aggregate investments in *OVDP* has also relatively significantly decreased in the 1-st quarter, so their weight in the consolidated portfolio of securities of all funds has decreased from 1.2% to 1.1%.

Only aggregate value and weight of *promissory notes* increased (from 27.4% to 29.3%) and the same took place for *derivatives* (from 2.0% to 2.4%, Table 8) - instruments which are used by virtually only *venture CII*s.

Portfolio of CII (excluding venture) in Q1 2018 accelerated growth to +UAH 206.9 M for the quarter, or to +9.3% (after +1.7% in Q4 2017) and reached **UAH 2,435.8 M**.

Increase of aggregate value of these CII's investments in *corporate bonds* took place at a two-digit rate - by 14.5%, and against the backdrop of weaker growth of all other traditional financial investments (including equities and government securities), it contributed to increased weight of the first from 13.9% to 14.6%.

Equities in the context of stock market's growth by 21% (according to the UX index) grew in CII's stock portfolio (excluding venture) by 4.2%, however, they gave way by this rate to *corporate bonds*, and lost their weight from 67.3% to 64.1%.

OVDP in consolidated portfolio of CII (excluding venture) grew the least (+0.9%), and therefore also decreased their weight - from 17.4% to 16.1% - but still retained their second position in terms of volume of investments by funds of this category (Table 9).

Diversified CII in Q1 2018 increased their portfolio of securities, after reduction in the previous one - by UAH 13.1 M, or by 19.0% (after -16.3%). As at 31.03.2018 its total value was **UAH 82.2 M** (Table 10).

Consolidated package of these CII's *equities* grew the most - by 25.1% (after -5.5%) for the quarter, and its share in the sector's portfolio of securities - from 71.5% to 75.2%.

OVDP increased in aggregate value in portfolio of this sector of CII, but did not offset contractions of the previous quarter and on the background of a much faster growth of portfolio of equities, lost weight from 27.5% to 24.0%.

Corporate bonds, after reduction by 93% in Q4 2017, slowed the downward trend to -2% in Q1 2018. Finally, their share in the consolidated portfolio of diversified CII decreased from 1.0% to 0.8%.

⁹ "Other assets" include corporate rights in other forms than securities, as well as receivables, including loans to companies, where CII own a stake in the capital (for *venture funds*).

Table 8. Portfolio of Securities and Derivatives in CII by Instrument Types as at 31.03.2018

Security Type	Aggregate value of securities & derivatives in CII portfolio, UAH M	Share in Aggregate CII Portfolio of Securities	Q1 2018 Change, UAH M	Q1 2018 Change, %
Equities	19 526.9	47.92%	-1 966.5	-9.1%
Promissory notes	11 927.6	29.27%	265.1	2.3%
Corporate bonds	7 852.6	19.27%	-256.6	-3.2%
State bonds (OVDP)	454.2	1.11%	-37.2	-7.6%
Mortgage securities	4.8	0.01%	-2.0	-29.8%
Derivatives	985.7	2.42%	128.5	15.0%
TOTAL	40 751.8	100.00%	-1 868.8	-4.4%

Table 9. Portfolio of Securities and Derivatives in CII (ex. venture) as at 31.03.2018

Security Type	Aggregate value of securities & derivatives in CII portfolio, UAH M	Share in Aggregate CII Portfolio of Securities	Q1 2018 Change, UAH M	Q1 2018 Change, %
Equities	1 561.9	64.12%	62.2	4.1%
State bonds (OVDP)	391.2	16.06%	3.3	0.9%
Corporate bonds	354.6	14.56%	45.0	14.5%
Promissory notes	128.2	5.26%	96.5	304.2%
TOTAL	2 435.8	100.00%	206.9	9.3%

Table 10. Portfolio of Securities and Derivatives in Diversified CII as at 31.03.2018

Security Type	Aggregate value of securities & derivatives in CII portfolio, UAH M	Share in Aggregate CII Portfolio of Securities	Q1 2018 Change, UAH M	Q1 2018 Change, %
Equities	61.8	75.15%	12.4	25.1%
State bonds (OVDP)	19.8	24.04%	0.7	3.9%
Corporate bonds	0.7	0.81%	0.0	-2.0%
Other Securities	0.0	0.00%	0.0	0.0%
Total	82.2	100.00%	13.1	19.0%

2.7. Rates of Return: CII and Other Investment Options

Even more rapid growth of Ukrainian stock indices in Q1 2018, after more moderate growth in late 2017, increased the profitability of a number of CII, in particular, of equity funds, during this period.

The leaders in terms of quarterly returns, both among diversified CII with a public issue by asset classes, and **among all categories of CII**, were **equity funds** that yielded an average of **+11.8%** for Q1 2018, after -0.2% in the previous one (Chart 15). Rates of return increased here even compared to the previous indicator, excluding fund, which at that time significantly lowered the average in the class (without it it was 10.9%). In this quarter, this fund did not fall into any class, as it was at the stage of liquidation.

Some equity funds, among which there were 5 open-ended CII, and remaining three – interval ones – had

from -1.0% to +21.3%. At that, 7 out of 8 of these funds had not only a positive quarterly profitability, but also one that covered inflation and outstripped deposits in hryvnia, half of them exceeded growth of the PFTS index (+13.4%), and the leader was at the level with the UX index (+21.4%)¹⁰.

“Other” diversified funds with a public issue in Q1 2018 were the second among other classes of funds by rates of return which increased to **+6.2%** (from -0.4% in Q4 2017). There were two funds in this category in September of 2017 – one open-ended (the only one here in the previous quarter) and interval one.

Mixed funds insignificantly increased their average quarterly result - to **+2.4%** (from +2.3%). At that, the number of CII related to this class decreased from 26 to 22, and funds with positive indicators again were about 73%.

¹⁰For an adequate comparison of rates of return it is necessary to take into consideration liquidity of CII, in particular, ones of open-ended type, which allow to exit from investments on any working day without losing returns, unlike in case of fixed-term bank deposits, the prevailing majority of which envisage re-calculation of interest income in case of early repayment of funds

at the deposit rate on current accounts (close to zero). In the meantime, calculated rates of return do not take into account possible commissions and other costs incurred at entry to/exit from funds, as well as taxation of interest on deposits.

Bond funds (one open-ended and one interval) for the first time had a negative average return this time (-0.9%, after +5.3%) due to depreciation in one of them of investments in foreign currency, which in this quarter fell in price relative to hryvnia.

Among CII by fund types, **interval funds** had this time the highest average rate (+7.0%, after -2.2% in Q4 2017).

Range of indicators of individual funds in this sector has narrowed and rose in comparison with the previous quarter - it was from -5.5% to +21.3%. Increase in NAV per certificate was shown by 12 out of 16 interval funds in Q1 2018 (75%, after 61% in Q4 2017).

Open-ended CII in Q1 2018 slightly lowered their returns on average - from 6.6% to +6.3%.

15 out of all 17 acting funds in the sector increased the value of their certificates (88%, after 94% in Q4 2017), while the rates of individual funds of this type varied from -4.0% to +19.7% - more, than at the end of 2017.

All 17 open-ended CIIs had higher returns than real estate (in hryvnia) and deposits in USA dollars and in euros, 16 - also compared to deposits in gold, 11 - at least compensated for the losses of inflation in this quarter and brought income higher than deposits in hryvnia, 2 - were more profitable than the PFTS index.

Closed-end CII with public issue that led in terms of returns in the previous quarter, this time showed an average +3.1% (after +8.8%).

Range of indicators of individual funds in the sector slightly decreased and dropped compared to Q4 2017 - from -53.8% to 67.2%.

Growth of investments was showed by 20 out of 42 of these CII (48%, after 53% in Q4 2017).

Closed-end CII with private issue (excluding venture) provided an increase of value of investments by an average of 1.8% in Q1 2018 (after -3.2%).

Range of these funds' quarterly results narrowed significantly and rose from -22.0% to +40.8%.

12 out of 31 of such funds - showed an increase in value of their securities for the quarter (39%, after 21% in Q4 2017).

All sectors of CII in Q1 2018 had rates of return, on which they were ahead of deposits in USA dollar, euro, gold and residential real estate in Kyiv

Rates on bank deposits in hryvnia and in gold at the beginning of the year did not change substantially, while on deposits in foreign currency they dropped on average; this, together with appreciation of hryvnia in the 1-st quarter, led to negative returns in hryvnia of bank deposits in non-hryvnia. Thus, annual term deposits in euro brought losses of -4.1% (after +8.0% in the 4-th quarter of 2017), in USA dollars -6.1% (after +6.9%), in gold - -3.8% (after +7.1%). At the same time, deposits in hryvnia provided, as in the previous quarter, an average of +3.7%.

Residential real estate in Kyiv in January-March of 2018 fell by 7.5% (in terms of hryvnia, after rising by 6.1% in Q4 2017).

In terms of annual returns in Q1 2018, equity funds retained the leading positions (+25.7%, after +30.1% in Q4 2017), as well as open-ended CII (+22.8%, after +27.3%).

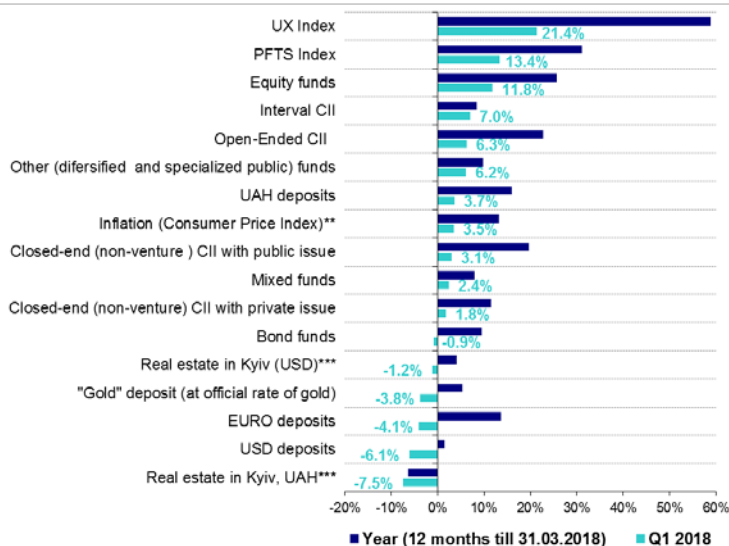


Chart 15. Rates of Return – CII, Deposits, Equity Indexes and Inflation Rates in Q1 2018.¹¹

¹¹ CII rates of return is calculated based on the reporting data for the first quarter of 2018 for 17 open-ended, 16 intervals, 73 closed-end CII (including 42 with a public issue and 31 with private issue), and according to the reporting data for previous periods – see: Ренкінги: ІСІ за типами фондів та ІСІ (диверсифіковані публічні) – за класами фондів. Inflation is calculated on the basis of data from the State Statistics Service of Ukraine (Consumer price indices for goods and services in 2018

(till the previous month). Rates of return for real estate in the USA dollars is calculated as the average of data on the value of residential real estate in Kyiv from portals: <http://www.domik.net>, <http://100realty.ua>, <http://realt.ua>; ; in hryvnia - according to the portal: <http://100realty.ua>.

3. NPF Asset Management Market Results

Assets of non-state pension funds¹² under AMC management in Q1 2018 continued to grow. Number of AMCs managing NPF assets and of pension funds themselves did not change at this time.

A total of 34 AMCs had pension funds under management (after -2 for Q4 2017): 46 open, 6 corporate and 6 professional NPFs (Table 11). 33 AMC managed assets of open NPFs, 5 – of corporate ones, 6 - of professional NPF.

Pension funds under management remained in total of 58 as at 31.03.2018 (excluding the NBU corporate fund) – **by 6.5% less** than a year ago.

Share of open NPFs by the number of funds under management (excluding NBU CNPF) remained at the level of 79.3% (Chart 16).

Value of NPF assets under AMC management in Q1 2018 increased by 1.9% (after 2.0% in Q4 2017), and for the year it slowed down to +10.9% (from 15.2% in December of 2017). As at 31.03.2018, it reached **UAH 1,216.6 M**.

Aggregate assets of all NPFs as a whole, including the NBU CNPF, in Q1 2018 **increased by 0.8% to UAH 2,485.2 M** (Table 12). This was facilitated by growth of the number of NPF depositors, number of pension contracts and number of NPF participants (by 4.2%, 3.9% and 0.3%, respectively), as well as by growth of amount of investment income - by 0.9%. Growth was restrained, as in the previous quarter, by the prevailing growth rate of pension payments compared to contributions (3.9% versus 0.7%).¹³

Thus, by volume of assets, more than half of the industry of pension funds was held by the NBU CNPF, although due to a decrease in its assets by 0.2% in Q1 2018, its share since the beginning of the year decreased from 51.6% to 51.0%. Taking into account this fund, the weight of *open NPFs* in aggregate assets of all pension funds increased to 35.5% (Chart 16).

Assets of open NPFs under management increased the most for the 1-st quarter - by 2.2% (after +1.4% in Q4 2017), so at the end of March, the market

share of these funds increased from 72.3% to 72.6% (excluding NBU CNPF).

Annual growth in March of 2018 slowed to +11.3% (from +16.0% in December of 2017).

As at March 31, 2018, pension assets of these NPFs reached **UAH 882.8 M**

Assets of corporate NPF under management gave way by growth rates to open and professional ones in Q1 2018, after leading by growth in Q4 2017: +0.7% vs. 7.4%.

Growth of these NPFs' pension assets for the year remained the largest among the NPF types, although it slowed down from +22.0% in December of 2017 to 17.3% in March of 2018.

As at the end of March of 2018, pension assets of these NPFs reached **UAH 216.4 M**.

Assets of professional NPFs under management, after decrease by 2.8% in the last three months of 2017, in the first months of 2018 increased by 1.6%. However, the annual decline, following the results of the first quarter of this year, deepened from -0.5% to -1.3%.

As at 31.03.2018 volume of these NPFs' assets amounted to **UAH 117.4 M**.

Corporate NPF remained **the largest in terms of average volume of assets under management** in March of 2018, but their lagging behind open and professional funds which have been equalized (UAH 19.6 M) decreased - the conditional such an average fund had UAH 36.1 M of assets under management.

In structure of NPF assets under AMC management, the share of **securities** in Q1 2018, with the increase of stock indexes, increased for the second quarter consecutively - from 51.2% to **55.7%** (for the year - from 50.9%, Chart 17).

For the entire industry of NPF, including NBU CNPF, this indicator at the end of March of 2018 amounted to **57.4%**, having increased since beginning of the year (from 49.5%) against the background of decrease of aggregate monetary assets and growth –of total assets in securities (Chart 18).

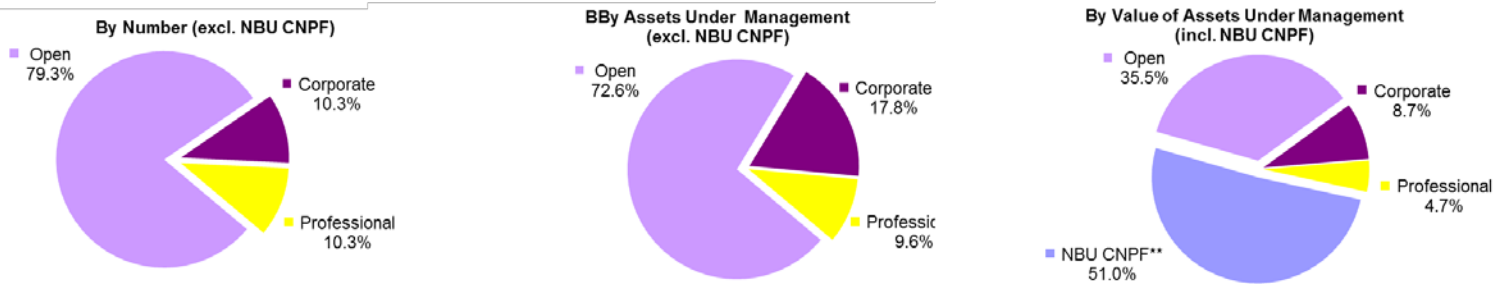
¹² Excluding NBU CNPF.

¹³ According to data of the National Financial Service.

Table 11. Number of NPF under AMC Management, by Fund Types in Q1 2018

NPF type	31.03.2017	31.12.2017	31.03.2018	Q1 2018 change	Annual change
Open	48	46	46	0.0%	-4.2%
Corporate	8	6	6	0.0%	-25.0%
Professional	6	6	6	0.0%	0.0%
Total	62	58	58	0.0%	-6.5%

* Excluding corporate pension fund (CNPF) of NBU.


Chart 16. Breakdown of Number of NPF and Value of Their Assets under AMC Management, by Fund Types, as at 31.03.2018
Table 12. NPF Assets under AMC Management, by Fund Types in Q1 2018

NPF type	31.03.2017		31.12.2017		31.03.2018		NPF Assets under Management Change for Q1 2018	Annual Change, %	Annual Change, UAH M
	Assets, UAH M	Number of NPF reported	Assets, UAH M	Number of NPF reported	Assets, UAH M	Number of NPF reported			
Open	793.2	48	863.6	43	882.8	45	2.2%	11.3%	89.5
Corporate	184.4	7	214.8	5	216.4	6	0.7%	17.3%	32.0
Professional	118.9	6	115.6	6	117.4	6	1.6%	-1.3%	-1.5
Total*	1 096.6	61	1 194.0	54	1 216.6	57	1.9%	10.9%	120.0
NBU CNPF**	1 109.7	1	1 271.6	1	1 268.6	1	-0.2%	14.3%	158.9
Total	2 206.3	62	2 465.6	55	2 485.2	58	0.8%	12.6%	278.9

Volume of NPF stock assets (excluding NBU CNPF) grew by 10.8% in January-March (after +4.7% in October-December of 2017), while for the year it increased by 21.5%.

Over 70% of growth was provided by *open* NPFs, where the total value of securities increased by 10.9% for the quarter (and 26% for the year), although stock assets relatively increased the most in *corporate* funds (+18.2%).

In *open* NPFs, securities, according to the results of Q1 2018, grew further by weight in these funds' assets - from 49.9% at the beginning of the year to 54.1% (Chart 19). And *professional* funds had the largest share of securities in their assets, where it decreased for the quarter from 65.2% to 64.2%, which was due to a slightly faster increase of investments in real estate and of other these NPFs' assets during this period.

At that, weight of equities in *open* and *professional* NPF in this quarter grew, respectively, from 1.0% to 1.9% and from 0.2% to 3.7%.

Cash and deposits in banks in Q1 2018 decreased in all sectors of NPF (as a whole - by 5.4%), and

most of all - in *corporate ones* (-16.1%), where their weight decreased for the quarter from 50.9% to 42.4%.

In *open* NPFs cash and bank deposits decreased by 2.6% in Q1 2018, this, together with an increase of their aggregate investment in securities, led to a narrowing of the first ones' share from 43.3% to 41.3%.

Professional funds at this time also reduced total assets in banks (-1.2%), and their weight in the structure of these NPFs' assets decreased from 27.3% to 26.6%.

As a whole, for all NPFs (excluding NBU CNPF), monetary assets in Q1 2018 remained the second largest component of assets under management - **40.1%** (after 43.1% at the beginning of the year). During the year their total volume increased by 1.1%.

Real estate, as before, was only in assets of *open* and *professional* NPFs, at that in the first its volume decreased by 45.4% for the quarter, while in the second - it grew by 39.8%. The share of real estate in assets of *open* NPF fell from 4.5% to 2.4% since the beginning of 2018, while in *professional* NPFs it increased from 4.4% to 6.0%.

Bank metals as at the end of March of 2018, still were only in the assets of open NPF, where their volume

decreased by 3% for the first quarter and amounted to 1.1% in sector's assets (after 1.2% at the beginning of the year).

Table 13. Structure of NPF Assets under AMC Management, by Fund Types, as at 31.03.2018, UAH M

NPF type	Securities	Moneys	Bank metals	Real estate	Other assets
Open	477.6	364.5	9.7	21.2	9.8
Corporate	124.7	91.7	0.0	0.0	0.0
Professional	75.4	31.2	0.0	7.1	3.8
Total	677.7	487.4	9.7	28.2	13.5

* Excluding corporate pension fund (CNPF) of NBU.

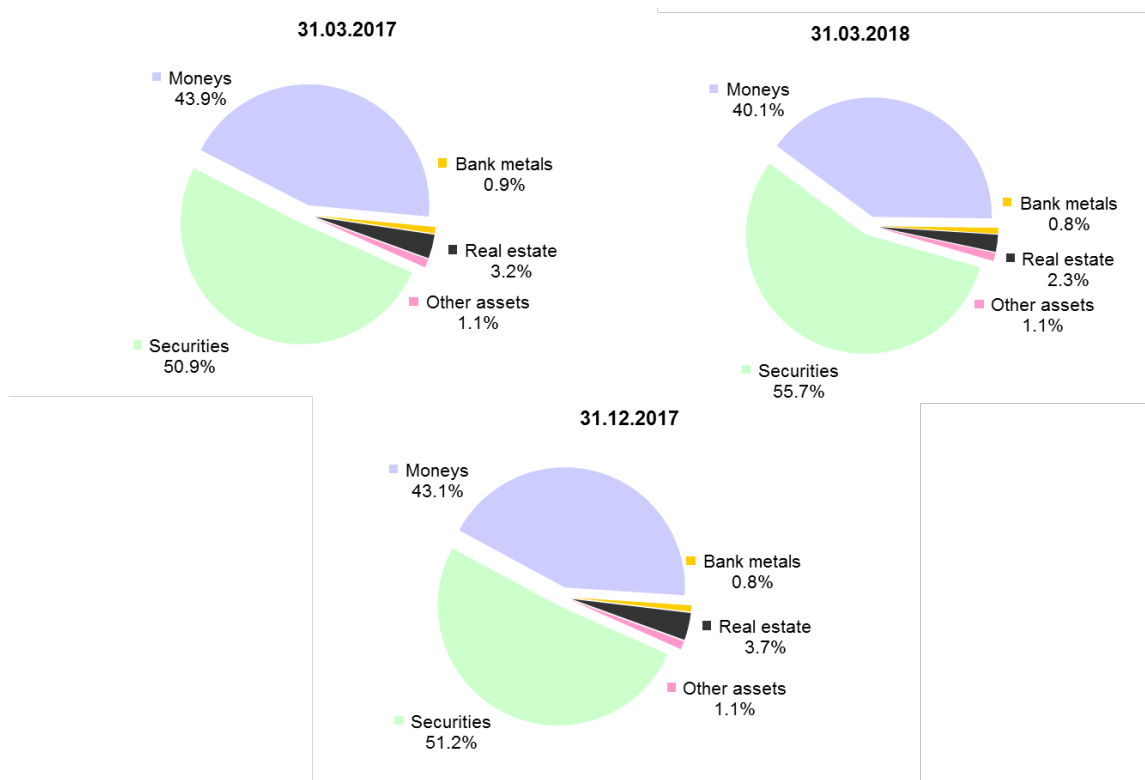


Chart 17. Dynamics of NPF Aggregate Portfolio Structure (excluding the NBU CNPF) in Q1 2018 and over the year

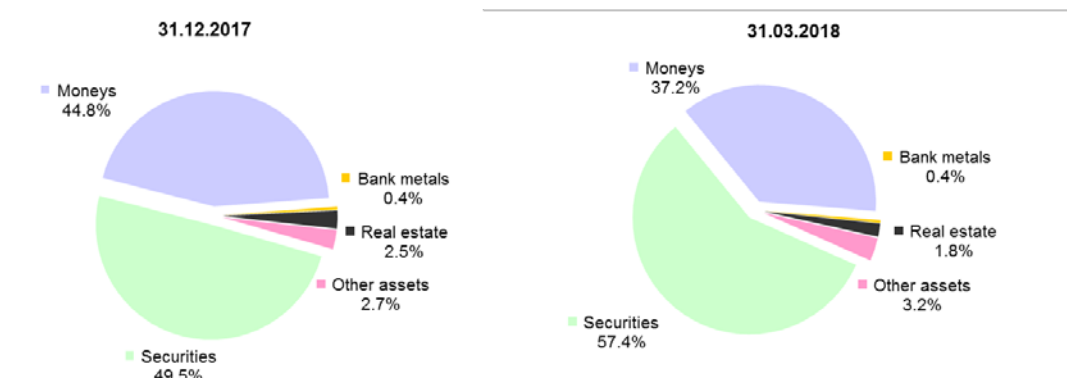


Chart 18. Dynamics of NPF Aggregate Portfolio Structure (including the NBU CNPF) in Q1 2018

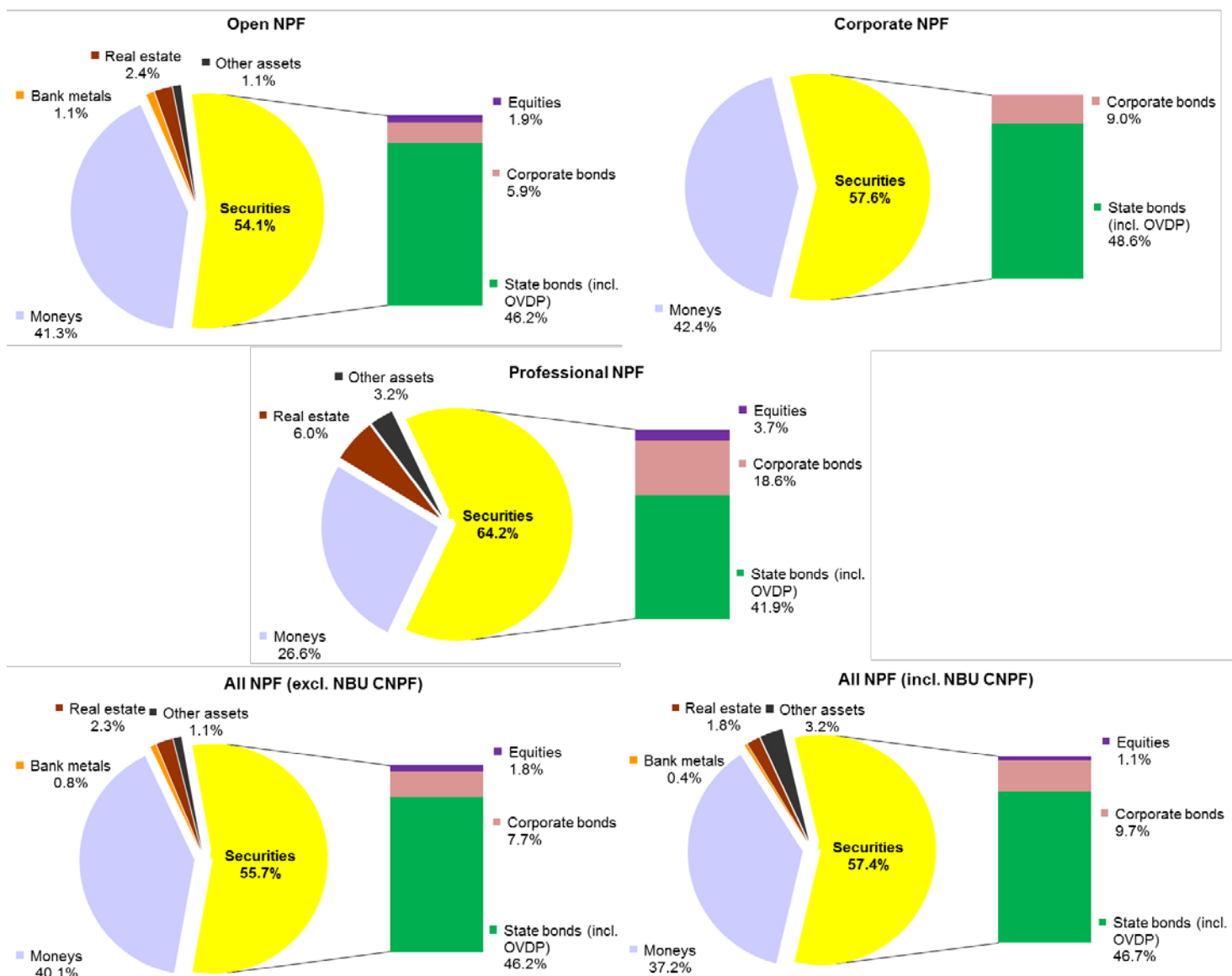


Chart 19. Structure of NPF Assets, by Fund Types as at 31.03.2018

4. IC Asset Management Market Results

In Q1 2018, assets of insurance companies (ICs) under AMC management, for the first time since the 2nd quarter of 2015, decreased.

Number of market participants - both of the ICs which transferred their assets for management themselves and of the companies that manage them - did not change during this period: there were **6 insurance companies with assets under AMC management** in March of 2018, and **2 AMCs** that provided such services (Chart 22).

IC assets under management for Q1 2018 **decreased by 13.8%** (after +41.3% in Q4 2017). At that, the annual dynamics remained positive - these assets increased more than in one and a half times (+54.1%) from

March of 2017 (Table 14). As at 31.03.2018, they amounted to **UAH 106.6 M**.

In structure of IC assets under management in March of 2018 the lion's share was kept by *state bonds*, although their weight decreased from 98.5% to 91.7%.

This happened both in connection with decrease of the aggregate value of such investments, and with increase of assets *in equities* and, especially, - assets on bank accounts. Value of the latter in the portfolio of IC under management, according to AMC data, increased from 0.6% to 7.1% as at the end of March of 2018 (Chart 20).

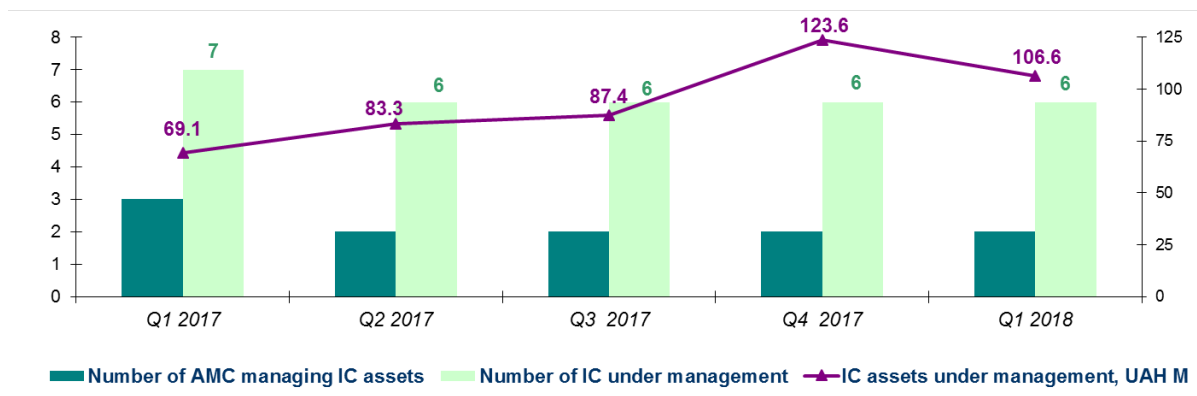


Chart 19. Dynamics of IC Asset Management in Q1 2017-18

Table 14. IC Assets under AMC management in Q1 2017-18

Period	Number of AMC managing IC assets	Number of IC under management	IC assets under management, UAH M	Change of IC assets under management		
				for the quarter	YTD	Annual
Q1 2017	3	7	69.1	27.3%	27.3%	106.4%
Q2 2017	2	6	83.3	20.5%	53.4%	71.9%
Q3 2017	2	6	87.4	26.5%	61.0%	80.4%
Q4 2017	2	6	123.6	41.3%	127.5%	127.5%
Q1 2018	2	6	106.6	-13.8%	-13.8%	54.1%

* IC - Insurance Companies

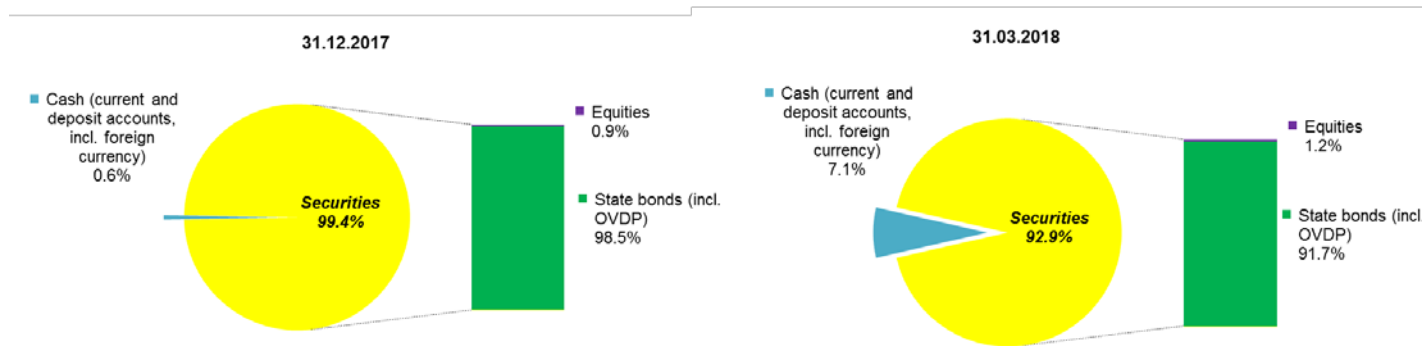


Chart 25. Dynamics of Structure of IC Assets under Management in Q1 2018

6. Summary

In January-March of 2018, the leading stock markets of the world suffered increased volatility, which finally for most of them meant losses based on the results of the quarter. At this time, the Ukrainian stock market, like some emerging markets, has grown steadily, supporting influx into investment funds, in particular to ones with public issue, and return on investment of collective investment institutions which invested in securities.

The key trends of the asset management industry in Ukraine in Q1 2018 were:

- Further increase of the *number of registered CIIs and number of recognized CIIs*, along with *unchanged amount of AMCs* (in both cases - at the expense of venture funds);
- Reduction of *aggregate value of industry's assets* (CII that have reached the minimum asset standard) - also at the expense of venture funds; this reduced their weight in market's NAV (in contrast to previous quarter, when they increased); at that - further growth of assets of all CII under management, including those that have not yet reached the standards in Q1 2018;
- *Increasing of open-ended CIIs' NAV* for the eighth consecutive quarter, by race which was

more than twice as fast as in the previous quarter, in conditions of accelerating rise in the stock market and a multiply-enhanced net inflow of capital to the sector;

- The second consecutive *increase of the number of investors in the industry as a whole* - mainly at the expense of venture CII, as well as of open-ended funds;
- Stable continued growth of *aggregate assets of Ukrainian citizens in CII*, in particular, in venture ones; in open-ended funds - the largest growth of their investments in absolute terms among all categories of depositors, although weaker at a relative pace than that of *foreign corporate investors*, the number of which in the sector has also risen relatively the most;
- Reduction of aggregate investments of *resident enterprises* in all CII as a whole (recognized funds) and in venture ones - in particular, along with decrease of their weight in total net assets;
- Growth of *aggregate value and weight of securities* in all categories of funds by types of CII, excluding venture;
- Growth of *returns of interval and closed-end CII with private issue* (excluding venture), as well as of equity, mixed and "other" diversified funds with public issue and lowering it in other sectors of CII; at that all categories of CII, except for bond funds, had positive, albeit somewhat lower, quarterly returns;
- Almost steady growth in *pension funds'* asset management market, and in insurance companies' asset management - the first from the 2nd quarter of 2015 reduction of assets under AMC management, along with constant number of relevant companies, and NPFs and ICs, which transferred their assets under their management.

So, optimism on the stock market in January-March of 2018 helped also AMC of non-state pension funds to increase pension assets under management in all sectors by NPF types, where the weight of securities increased and confidently occupied more than half of assets, although the lion's share in them was retained by state bonds.

Demand for open-ended CII increased in Q1 2018, while the sector of venture CII went through a period of replacement of liquidated funds with new ones, the number of which was larger. Thus, despite the further growth of aggregate assets under AMC management, assets of funds that have reached the standards, declined in January-March of this year. Negative dynamics of portfolio securities' value of number of these funds, which was connected with supervisory actions of the regulator, also put the downward pressure on them, in particular on venture CII.

Ukrainian open-ended CII at this time, in the context of a rise in the stock market, accelerated growth more than two-fold in comparison with the 4-th quarter of 2017, and the net inflow of capital to them increased, updating the record of the annual value of net sales for the last decade.

Dynamics of the stock market also contributed to improving returns of other CII, which invested mainly in securities – first of all of diversified equity funds with public issue. Most of open-ended CII in this quarter outperformed the term annual deposits in hryvnia, and some funds had results close to the key stock indices for this period.

Taking into account presence of CIIs which have not yet reached the minimum asset standard and the number of which in Q1 2018 increased further and exceeded the number of those which have started process of liquidation, one can expect further quantitative growth of funds industry.

See additional and statistical information on the UAIB website:

- [The Ukrainian Fund Market in Figures](#)
- [Daily Fund Data](#)
- [Analytical Statistics and Reviews 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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