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1. Stock Markets: Ukraine and the World

The **developed stock markets** showed diverse dynamics in Q3 2020 against the background of a heterogeneous picture of success in the struggle of governments of the respective countries with the spread of the coronavirus pandemic in them and different rates of recovery of their economies.

The growth of the indices in the United States, despite the fastest spread of COVID-19, continued against the background of large-scale previous financial infusions from the government and the Fed and expectations of developing a vaccine against a new global disease soon. And this even though several grant and concessional loan programs approved by Congress faced significant implementation problems and virtually exhausted themselves, and he failed to approve new, additional infusions by the end of the quarter, amid political confrontation between key parties and the presidential election.

After a sharp drop in the country's GDP in the first half of the year¹, the efforts of the administration and several states to restore business after the previous restrictions contributed to growth in Q3, which exceeded economists' expectations: + 7.4% compared to Q2. However, the US economy in July-September 2020 was still smaller by -2.9% than a year ago².

In Europe, the second wave of COVID-19 disease began in late August and early September after summer quarantine easing, prompting EU governments to seek consensus on a historic macro-financial stimulus package in the form of grants and loans and the issuance of EU-level bonds³.

At the same time, some of the countries most affected by the crisis have been implementing or continuing their domestic business and population support programs, including Spain extending the

downtime financing scheme until January 2021, and France has announced a new stimulus package of EUR 100 billion. In the euro area, GDP fell by 4.3% year on year in Q3, and in the EU as a whole - by 3.9%⁴, after failing in the second quarter by 11.8% and 11.4%, respectively⁵.

According to the updated forecast of the International Monetary Fund in October, the eurozone economy will fall in 2020 by 8.3%, the EU - by 7.6%, developed markets as a whole - by 5.8%, and by 3.3% - for developing countries (with China - will increase by 1.9%)⁶.

In the UK, which is preparing for the end of the transition period before the final exit from the EU at the end of this year, the country's GDP grew by a record + 15.5% in Q3 but remained 9.7% less than before the pandemic⁷. One of the measures to facilitate the transition of British and European capital markets to post-Brexit functioning, in the absence of a new trade agreement between the EU and the UK, was the EU's agreement on the provisional (for the next 18 months) application of equivalence rules three London clearing houses that still dominate the EU market. In addition, the European Commission has announced the status of "equivalent" to the current British system of regulation and supervision of counterparties until the end of June 2022.

Finally, in Q3 2020, the shares of leading companies in the US grew by 7.6-8.5%, in Japan - by 4.0% (after + 17.8-20.0% in both markets in Q2), in Germany - by 3.7% (after + 23.9%), and in the United Kingdom - fell by 4.9% (after + 8.8%), in France - -2.7% (after + 12.3%), Poland - by 2.6% (after + 16.3%).

For 9 months from the beginning of 2020, only the broad US market index (S&P 500) had an increase, and the other key developed markets lost 2-22%. At the end of September (as well as in June), German, American and Japanese blue chips increased from 3% to 13% (Chart 1).

¹ In Q2, GDP fell by 31.4% per annum compared to Q1, which was the worst indicator for the entire period of data collection by the government since 1947, according to the Department of Trade. For Q3 this indicator was already positive: + 33.1%. <https://www.commerce.gov/data-and-reports/economic-indicators/dashboard>

² <https://www.bbc.com/news/business-54723914>

³ Already in November, the European Commission approved a budget for 2021-27 for a total of EUR 1.8 trillion, which provides a program to support the recovery of EU economies after the corona crisis, proposed in May and agreed by EU leaders in July: https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2073

⁴ <https://ec.europa.eu/eurostat/documents/2995521/10663774/2-30102020-BP-EN.pdf/94d48ceb-de52-fcf0-aa3d-313361b761c5>

⁵ <https://ec.europa.eu/eurostat/documents/2995521/10545471/2-08092020-AP-EN.pdf/43764613-3547-2e40-7a24-d20c30a20f64>

⁶ https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/EU (for Ukraine forecast of GDP decline in 2020 - by 7.2%).

⁷ <https://markets.businessinsider.com/news/stocks/uk-gdp-grew-record-q3-pace-recovery-slowing-second-lockdown-2020-11-1029794936>

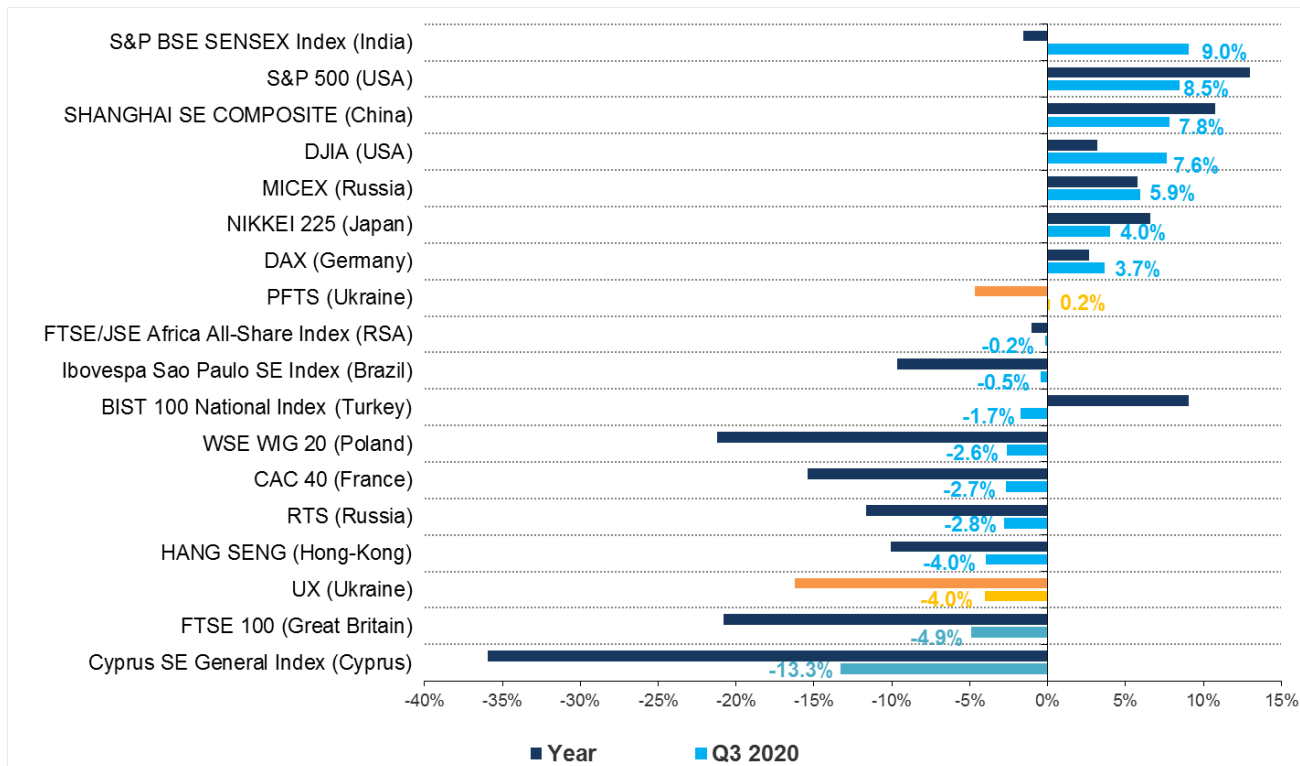


Chart 1. Dynamics of the world stock indices in Q3 2020*

* Based on the data of exchanges and Bloomberg Agency. Ranking in the chart is based on quarterly figures.

Among **emerging markets**, there were both leaders and outsiders among all key global markets in the dynamics of stock indices in Q3 2020. In July-September, Indian stocks grew the most: + 9.0% on the main index (after + 18.5%). However, due to the failure of Q1, they remained below the level at the beginning of 2020 (-7.7%) and a year ago (-1.6%).

China continued to show active economic recovery after a hard coronavirus lockdown in the spring: according to official data, after growing by 3.2% in the 2nd quarter, in the 3rd it accelerated to + 4.9% year on year, bringing the economy down 1.6% in the first quarter. half of 2020 by an increase of 0.7% in 9 months⁸. However, the key Chinese index slowed down slightly in Q3 2020 - to + 7.8% (from + 8.5% in Q2). This brought it into a positive zone in terms of dynamics since the beginning of the year: + 5.5% in September, after -2.1% in June, and the annual growth increased to + 10.8%. At this time in Hong Kong, key stocks lost 4.0% in July-September (after rising 3.5% in April-June), increasing the decline from the beginning of the year to almost -17%, although the annual change in September fell to -10%, from -15% in June.

Shares of the leading Brazilian companies, which together with the Turkish ones were the leaders of Q2 (+ 30%), fell by 0.5% and 1.7% in Q3, respectively. From the beginning of 2020 to the end of September, the former fell by more than 18%, and the latter returned to the initial level. The annual result for the Brazilian index was also negative (almost -10%), while the Turkish added 9% for the year in September (after + 21.9% in June).

The Cypriot index was an outsider in Q3 2020, losing 13.3% in July-September (after + 1.5% in April-June), 34.2% since the beginning of the year, and 35.9% in a year. The Russian dollar RTS also had negative indicators in all three periods (-2.8% in Q3), although the MICEX ruble index continued to grow (+ 5.9%, after + 9.3% in Q2). At the same time, oil prices remained almost unchanged in Q3 (after doubling in Q2), and the ruble's exchange rate against the US dollar fell by 8.3% (after + 10.6% in Q2). For 9 months of 2020, both had losses (-5-24%), and for the year the ruble index received almost + 6%, while the dollar - more than -11%.

⁸ <https://news.cgtn.com/news/2020-10-19/China-s-GDP-expands-4-9-in-Q3-UI1qzuOQhy/index.html>

Ukrainian stock market. In Q3 2020, the UX index lost 4.0% (after -2.9% in Q2), remaining among international outsiders in terms of card yield. At the same time, the PFTS index added 0.2% (after -2.3%). In the nine months since the beginning of the year, they had relatively more moderate results: -2% (PFTS) and -14% (UX), while in the world only the major US and Chinese indices rose during this period. The dynamics of the Ukrainian market over the past year has also been negative - as in several developed and emerging markets. At the same time, the decline in the PFTS and UX indices was on average more restrained: -5-16%.

The composition of index baskets of Ukrainian stock indices at the end of September 2020 did not change: the UX index included 6 shares (4 energy companies, one - machine-building and one bank); PFTS index - 7: in addition to 5 shares from the UX index (energy and banking), there is also one machine-building and one telecommunications company.

The failure of the UB index in early July by 8.5% coincided with the news of the dismissal of the NBU Chairman with his statement of political pressure from senior management, and although by mid-month the market had recovered almost half of this fall, further volatility kept it at that level until the end quarter.

During Q3, the Government of Ukraine regularly extended and modified quarantine measures to reduce the negative effects of the coronavirus pandemic, including introducing "adaptive" quarantine and extending a number of business easing, including tax incentives, until the end of quarantine.

Also, in August, the European Commission approved eight macro-financial assistance programs for partner countries, including Ukraine, in their fight against the economic consequences of the coronavirus totaling EUR 3 billion. However, for Ukraine, the political conditions for obtaining EUR 1.2 billion from this pool are the largest and relate to strengthening public finance management, governance and the rule of law, judicial reform, competition in the gas market, improving the business climate, and managing state-owned enterprises.

With regard to relevant legislation, the key for the stock and other financial markets of Ukraine in Q3 2020 was the entry into force on July 1 of Law №79-IX "On Amendments to Certain Legislative Acts of Ukraine to Improve Functions on State Regulation of Financial Services Markets" (on the "split" of functions of the former National Commission for State Regulation of Financial Services Markets between the National Bank and the

NSSMC), which was approved in September last year as one of the items of the Stand-by financial assistance program of the IMF to Ukraine. In preparation for this event, the NSSMC as a new regulator of private pension funds and their administrators, adopted several regulations to comply with the requirements of this law - on the preparation and submission of reports, on prudential standards and more.

Also, in August, the President signed the Law №738-IX "On Amendments to Certain Legislative Acts of Ukraine Concerning Simplification of Attracting Investments and Introduction of New Financial Instruments" ("On Derivatives") adopted by the Verkhovna Rada in June. It will come into force on July 1, 2021, except for a few rules that have already worked after its publication and some others that will come into force in 2022-23.

Regarding the macroeconomic situation in Ukraine in July-September 2020, real GDP, according to the State Statistics Committee, decreased by 3.5% year on year in Q3 (after -11.4% in Q2). At the same time, the decline in industrial production in Ukraine in January-September 2020 slowed down to -7.0% compared to the same period last year (from -8.3% in January-June), and in the agricultural sector - to -13.1% (from -18.7%). During the same period, the index of construction products returned to the positive zone: + 0.2% (after -5.5% in January-June). At the end of September, as compared to June, the physical volume of retail trade also increased: + 6.7% in January-September (after + 3.0% in January-June, although in January-March it was + 10.6%).

Financial and insurance activity, according to available data only for Q2 2020, fell by 14.3% per annum, after -7.9% in Q1. And according to the State Statistics Service survey of service enterprises on their expectations, the indicator of business confidence in financial services increased from -33.7% in Q3 2020 to -14.3% in Q4 (at the beginning of 2020 the index was close to zero). According to the components of this indicator, the assessment of the business situation in July-September was at -25%; estimation of demand for services (volume of sales of services) - by 16%, and expectations for this indicator in Q4 were -2%. At the same time, compared to the previous quarter, respondents in the field of financial services expect: a slowdown in the number of employees and a decrease in profitability; increase in capital expenditures of enterprises in this area⁹.

Year-on-year inflation remained stable at 2.3% in September, after 2.4% in June (2.3% in March). However,

⁹ http://www.ukrstat.gov.ua/operativ/operativ2020/fin/rp/posl/posl_IV_2020.pdf

according to the results of Q3, deflation was even recorded by 0.3% (after inflation by 1.3% in Q2).

Under these conditions, the NBU twice, in July and September, left its key rate unchanged at 6%, considering it lower than the neutral rate, i.e., one that should stimulate economic growth, while leaving room for further reduction of interest rates in the economy. Thus, the monetary policy of the NBU did not change during this period, despite the change of its head and some changes in the composition of the Board. In July, the National Bank forecast that in the second half of 2020, inflation will accelerate to 4.7% by the end of the year (corresponding to its target range of 5% + / - 1 pp), and GDP will eventually fall by 2020 by 6%, with further growth in the coming years at 4% - if cooperation with the International Monetary Fund will be continued.

Cancellation of Ukraine's placement of Eurobonds for USD 1.75 billion. Following the dismissal of the NBU Chairman, the US initially shaken investor confidence in the local market - and the exchange rate for a while - but in late July the Treasury successfully placed the same Eurobonds maturing in March 2033, even at a higher rate and at a lower rate (USD 2 billion, 7.25%). More than a third of these funds will go to repay debts in 2021-22, the rest - to finance the budget deficit.

The official exchange rate of hryvnia against the US dollar and the euro fell by 5.7% and 9.6% in Q3, respectively (after strengthening by 5.1% and 3.4% in Q2). At the same time, Ukraine's international reserves, according to the NBU, increased in July-August when the National Bank bought the currency on the market due to its inflow from exporters and investors in government securities (at its peak in August was USD 29 billion). However, in September - and finally for the entire Q3 - they decreased from 28.5 to USD 26.5 billion (equivalent). This was mainly due to the peak debt payments on the country's external liabilities that have fallen so far (USD 2.7 billion). Also, at this time, tensions have risen with the IMF and other international financial partners in Ukraine, which have called into question the NBU's continued independence, leading to a lack of further revenue from previously agreed loan programs and agreements. In September, the demand for foreign currency exceeded the supply due to the intensification of importers and companies that bought foreign currency to pay off foreign debts. From the beginning of the year, international reserves maintained an increase (+4.8%).

At this time, the Ministry of Finance continued to hold regular weekly auctions for the sale of OVDPs and to attract significant resources to the budget, however, to a lesser extent than in Q2.

Thus, for the entire Q3 2020, the Ministry of Finance placed OVDPs for a total of UAH 66 billion (27.8% less than for Q2), including UAH 40.1 billion only for hryvnia bonds, the yield on which fell below 10% (for annual bonds). Foreign currency OVDPs were also sold for almost USD 1 billion (+ 82%), rates on which have hardly changed since the end of March, and terms have increased slightly: from 3.4% per annum for 7-month to 3.6% per annum for one-and-a-half-year OVDPs)¹⁰. At the same time, according to the NBU, the share of non-residents in the total volume of OVDPs in circulation at their value in hryvnia equivalent decreased from 11.4% in June to 9.6% in September (for hryvnia OVDPs - from 12.7% to 10.8%). The share of OVDPs in the portfolios of non-residents, excluding those owned by the NBU, decreased from 22.2% to 19.01%.

Local businesses, individuals and banks increased their investments in government debt by 2-10% in Q3 2020. At the end of September, banks owned 48.7% of OVDPs in circulation (47.2% in June). The NBU has not changed its OVDPs package since mid-March, adhering to its policy of refraining from financing public debt.

The size of the stock exchange market of Ukraine in Q3 2020 decreased slightly in terms of the number of issues of "listed" securities, but the total trading volume increased slightly.

The consolidated stock exchange list of all current stock exchanges in July-September 2020 did not change (after + 3.2% in April-June) and included 523 issues, but the dynamics from the beginning of the year and for the last year remained negative (-2.4% and -15.5%, respectively, Table 1).

The "listing" (securities in stock exchanges) decreased further: -2.4% in Q3 (after -1.4% in Q2). In contrast to the previous quarter, this was entirely due to government bonds (OVDPs): -2.6% (after -1.0%). Over the year, the number of listed securities decreased by 28.2% - also mainly due to OVDPs (-29.2%), while the number of municipal and corporate instruments in the stock exchange registers did not change, and the number of CII securities decreased to one issue¹¹. Thus, as of the end of September 2020, OVDPs accounted for 92.6% of all listed instruments on stock exchanges (after 92.8% in June).

¹⁰ <https://mof.gov.ua/uk/ogoloshennja-ta-rezultati-aukcioniv>

¹¹ In total, as of September 30, 2020, the lists of UX, including "listing", included 144 issues of equities, 13 - equities of CIF, 35 - investment certificates, 82 - corporate bonds, 12 municipal bonds.

Table 1. Dynamics of the stock market of Ukraine in Q3 2020

Indicator / Date	30.09.2020 (Q3 2020)	Q3 2020 change	YTD	Annual change in Q3 2020
Number of Securities in the listing of stock exchanges, incl.*:	523	0.0%	-2.4%	-15.5%
Number of securities in the registers (listing) of stock exchanges, incl.:	204	-2.4%	-5.6%	-28.2%
State bonds (OVDP)	189	-2.6%	-6.0%	-29.2%
municipal bonds	2	0.0%	0.0%	0.0%
corporate bonds	9	0.0%	0.0%	0.0%
equities**	3	0.0%	0.0%	0.0%
CIF shares	1	0.0%	0.0%	-66.7%
investment certificates	0	x	x	-100.0%
Trading volume on all stock exchanges in total, UAH M, incl.:	82 471.3	5.3%	12.7%	-1.0%
State bonds (OVDP+OZDP)	80 440.2	3.7%	11.9%	0.8%
municipal bonds	1 705.3	189.6%	x	x
corporate bonds	239.5	528.2%	-78.9%	-92.9%
equities	69.8	510.8%	211.1%	-3.1%
investment certificates & CIF shares	3.3	-40.9%	2918.2%	-89.5%
derivatives (excl. state derivatives)	10.2	-80.9%	-86.0%	-65.8%

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

* In total, as of September 30, 2020, the lists of the UX, including "listing", included 144 issues of equities, 13 shares of CIFs, 35 investment certificates, 82 corporate bonds, 12 municipal bonds.

** Including depository receipts of MHP S.A.

The total quarterly trading volume on all exchanges in Q3 2020 increased by 5.3% compared to Q2 and, according to the NSSMC, amounted to UAH 82.5 billion. The lion's share of them traditionally belonged to government bonds: 97.5% (after 99% in April-June), the total value of transactions with which increased by 3.7% in Q3 (after + 0.2% in Q2). At the same time, the share of government external bonds (OZDP) was only 0.4% of the total trading volume on the stock exchanges.

Trade in municipal securities continued to grow rapidly: the total value of transactions with them almost tripled (+ 189.6%).

The volume of transactions with corporate bonds and shares in Q3 2020 increased more than 6 times, but

from a very low base and in July-September they together amounted to less than UAH 310 million, or 0.4% of total exchange trading in Q3.

The dynamics of exchange trading in certificates and shares of investment funds and derivatives was negative: -41% and -81%, respectively.

Over the last year, in Q3, only the volume of trades in government bonds increased (60.8%), while the total volume decreased by 1.0%. During this period, trade in corporate bonds fell 14 times, CII securities - almost 10 times, derivatives - three times and only shares - almost did not change in volume (-3.1%).

2. Asset Management Industry

2.1. Number of AMC, CII, NPF and IC with assets under management

In Q3 2020, the Ukrainian sector of asset management of institutional investors continued to grow.

In July-September, according to UAIB, 66 new CII were registered. Considering the funds that closed during

this quarter, as of the end of September, the **total number of registered CIIs** increased to 2023 (+ 2.6% for Q3).

The **number of formed CIIs**, which reached the minimum assets ratio, grew in the 12th consecutive quarter, and reached 1443 (+46 funds, or + 3.3% in Q3 2020). During July-September, 58 new CII were recognized as having taken place, all of which were venture CII, including 55 - CIF, which reached the minimum asset ratio at the same time as state registration.

The **number of AMCs** in Ukraine, according to UAIB, in Q3 2020 also increased and as of 30.09.2020 amounted to 300 AMC (Chart 2)¹². In July-September, 5 companies were established and two withdrew from the market.

At the end of September, there were 281 companies that managed at least one fund, of which 98.6% managed

at least one venture CII. In total, these AMCs had from 1 to 54 funds under management.

The **number of non-state pension funds (NPFs) under management** in Q3 2020 has not changed - 60 (excluding the NBU corporate fund), including 48 open, 6 corporate and 6 professional NPFs. The assets of these funds were still managed by 34 AMCs.

The **number of insurance companies (ICs) under management** has also remained unchanged since the beginning of the year: as of 30.09.2020, the assets of two insurance companies were managed by one AMC.

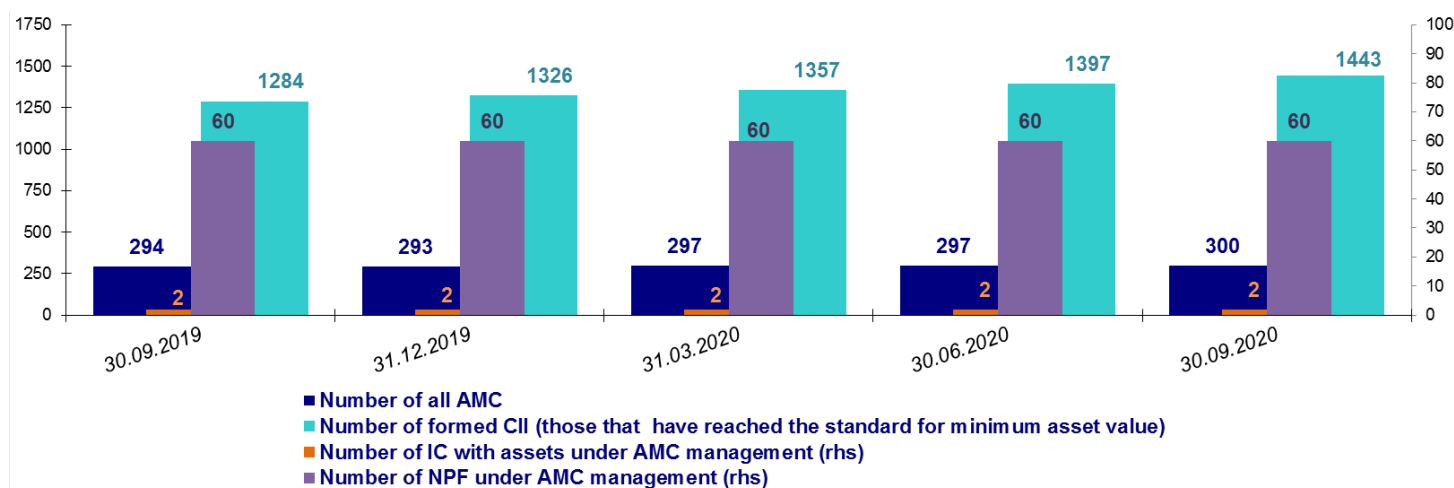


Chart 2. Dynamics of the number of AMC and CII, NPF and IC with assets under AMC management in Q3 2019-2020

2.2. Assets under management, CII NAV and Net Flow of Capital in Open-Ended CII

The **total assets of all institutional investors under AMCs management** in Q3 2020 accelerated growth from 2.8% to 6.1%, against the background of some economic recovery in the context of easing restrictive measures to combat the coronary crisis and amounted to UAH 400,177 million at the end of September. Annual growth accelerated from 11.3% in June to 14.3% in September.

As of September 30, 2020, **CII assets under management**, including those that have not yet reached the minimum volume, reached UAH 398,116 million. In

July-September, they also grew by 6.1%, and in September - by 12.7%.

Assets of acting CII under management that reached the standards ("established" CII) also accelerated to 6.3% growth in Q3, and year on year to 16.0% in September. As of September 30, 2020, they reached UAH 394,410 million (Chart 3).

By CII sectors by types of funds and methods of placement, the growth of assets in Q3 2020 was recorded in open-ended, interval and venture funds. As in Q2, the first two sectors had a relatively faster growth, but in absolute terms the lion's share of growth in industrial

¹² At the time of writing, UAIB also included 17 non-state pension fund administrators, including 11 companies that combine this activity with asset management and have already been members of the Association. UAIB received the official status of OPU and SRO for the second type of professional activity - the

administration of private pension funds after the relevant registration with the NSSMC on August 27, 2020. Analysis of the results of NPF activities according to the reported data from their administrators will be included in separate UAIB reviews.

assets was provided by venture CII, and their assets added relatively more than all CII in Q3 (+ 6.9%) to UAH 378,796

million (Chart 7), according to reports on 1,212 of these CII (+ 3.1% for the quarter).

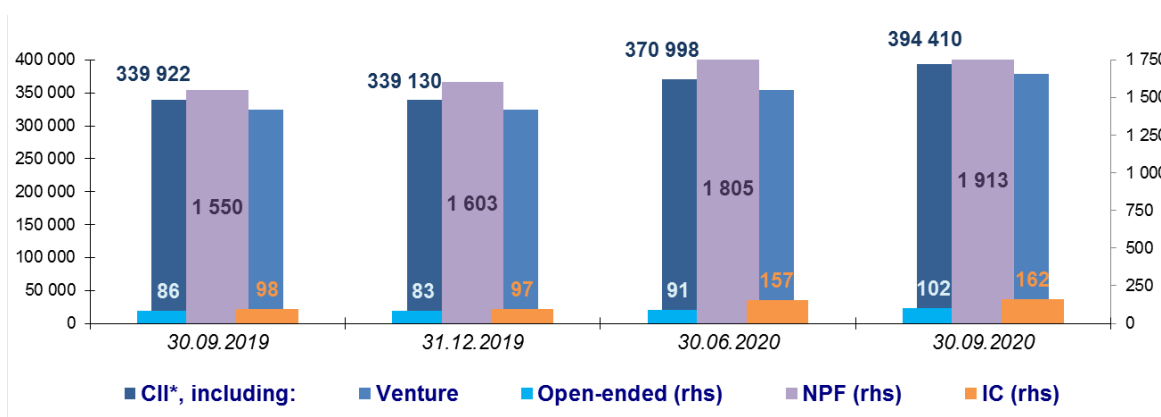


Chart 3. Dynamics of the value of assets under management in Q3 2019-2020, UAH M

In July-September 2020, **NPF assets under management** slowed down quarterly growth to 5.9% (from 9.2% in April-June), although the annual rate accelerated from 19.9% in June to 23.4% in September. For 9 months from the beginning of 2020, they added 19.3% and as of the end of September amounted to UAH 1,913 million.

The **assets of ICs under AMC management** also slowed down in Q3 2020: + 3.0%, after + 19.9% in Q2. Since the beginning of the year, they have added 68%, and over the last year - more than 66% (after 70% in June). As of 30.09.2020, the volume of insurers' assets under management updated to a record value of UAH 162 million.

The **total NAV of CII**s that reached the standards accelerated to 6.9% in Q3 2020, and to 17.2% in September over the last 12 months. As of 30.09.2020, the total NAV of CII reached UAH 309,633 million.

NAV of venture CII in Q3 2020 accelerated growth to 7.2%, and for the last year in September - to 17.3%. At

the end of September, net assets of this sector amounted to UAH 294,390 million, or 95.1% of the total NAV of all operating CII.

Net assets of open-ended CII in Q3 2020 grew almost three times faster than in Q2: + 12.2%. More than 80% of the quarterly increase in NAV was provided by net capital inflows.

Over the last year in September, the NAV of open-ended funds added 10.8%, more than ¾ of which provided net sales. As of September 30, 2020, the NAV was equal to UAH 101.3 million - the highest since December 2013, when there were almost twice as many open-ended funds.

The **total net capital inflow in open-ended CII** in Q3 2020 increased fivefold compared to Q2 - to UAH +8.8 million (Chart 4).

This contributed to the hitherto record net sales of these funds since the beginning of the year of over UAH 14 million and significantly increased the annual net inflow to open-ended CII: from UAH 3.0 million at the end of June 2020 to UAH 11.8 million at the end of September.

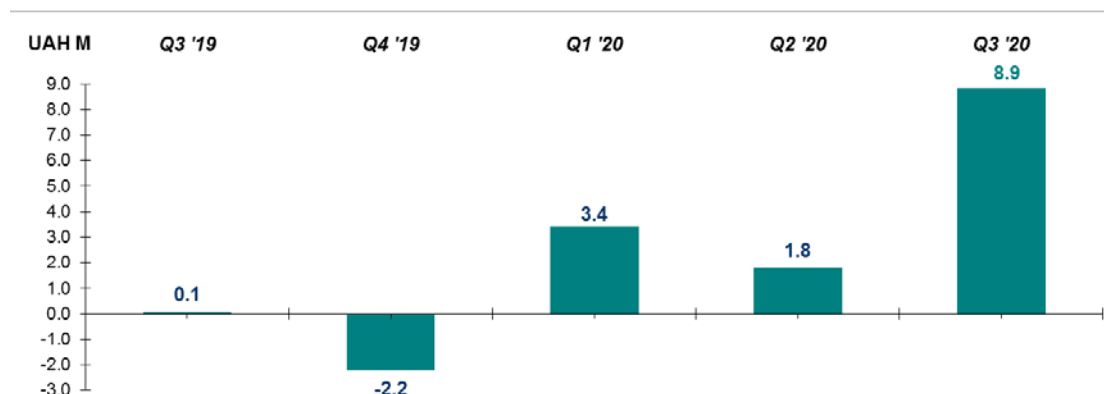


Chart 4. Net inflow/outflow of capital in open-ended CII in Q3 2019-2020



For more detailed information on the performance of asset management markets of CII, NPF and IC, see special UAIB reviews, which will be published on the website: http://www.uaib.com.ua/analituaib/publ_ici_quart.html

See additional and statistical information on the UAIB website:

- [The Ukrainian Fund Market in Figures](#)

For more information about UAIB please visit [UAIB website](#).