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**1. The Stock Market**

During Q3 2013, *stock markets around the globe* were demonstrating growth thus reflecting an increase of investors' confidence resulting from improvement of the key economic indicators in well-developed countries. Among the main growth drivers were the expectations as regards further support of the US economy on the part of the FRS via "quantitative easing", as well as improvement of production indexes in Germany and China – the greatest economies in Europe and Asia.

In the second half of the quarter global markets sank, as the FRS announced a potential start of cuts in respect of the government bonds' redemption program already this year in case of evident economic growth. Investors' tension in the whole world enhanced also due to a threat of unfolding of a large-scale military conflict in the Middle East, Syria.

September witnessed weakening of tension, and the Central Bank of the US confirmed that soft monetary policy would be preserved, which helped markets to end the quarter in positive.

According to Q3 results, the key indexes of all leading markets demonstrated growth: between +1.5%/4.7% in the US and +4.0% in the Great Britain and up to +10.8% in France. Japanese equities that had been the leader of two preceding quarters in Q3 grew moderately (+5.7%). Since the beginning of 2013, global indexes demonstrated positive performance results – between 0.9% in Poland and up to 63.0% in Japan. Russian equities proved to be a growth leader among the neighboring developing countries in Q3 (+9.9-11.5%), and Polish ones – also managed to resume upward dynamics (+6.5%). (Table 1, Chart 1).

Table 1.

*National markets' stock indexes' dynamics in Q3 2013\**

Indexes	30.06.2013	30.09.2013	Q3 2013 change	Annual change	2013 YTD change
RTS (Russia)	1 275.44	1 422.49	11.53%	-2.45%	-6.84%
CAC 40 (France)	3 738.91	4 143.44	10.82%	23.51%	14.45%
MICEX (Russia)	1 330.46	1 462.82	9.95%	-0.87%	-0.81%
HANG SENG (Hong Kong)	20 803.29	22 859.86	9.89%	9.69%	0.85%
SHANGHAI SE COMPOSITE (China)	1 979.21	2 174.67	9.88%	4.24%	-2.62%
DAX (Germany)	7 959.22	8 594.40	7.98%	19.10%	12.90%
WSE WIG 20 (Poland)	2 245.64	2 391.53	6.50%	0.85%	-7.41%
NIKKEI 225 (Japan)	13 677.32	14 455.80	5.69%	62.97%	39.06%
S&P 500 (USA)	1 606.28	1 681.55	4.69%	16.72%	19.90%
FTSE 100 (Great Britain)	6 215.47	6 462.22	3.97%	12.54%	9.06%
DJIA (USA)	14 909.60	15 129.67	1.48%	12.60%	16.94%
UX (Ukraine)	866.47	847.90	-2.14%	-15.87%	-10.80%
PFTS (Ukraine)	309.78	298.55	-3.63%	-19.20%	-9.17%

\* Based on the data of exchanges and Bloomberg Agency

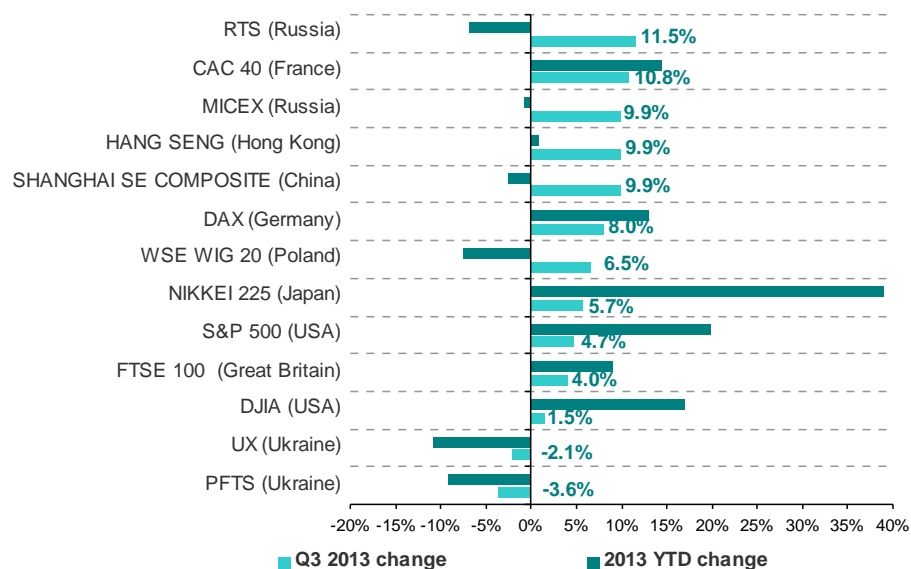


Chart 1. National markets' stock indexes' dynamics in Q3 2013

Ukrainian indexes in Q3 demonstrated dynamics, which was close to global trends, but was characterized by greater volatility. As a result of August sagging and a minor September restoration, over the quarter national "blue chips" indexes dropped: UX index – by 2.1%, and PFTS index – by 3.6%. That deepened sagging since the beginning of 2013 to -15.9% (UX) and -19.2% (PFTS).

In the meantime, trade volumes on Ukrainian stock exchanges were growing faster – during the quarter they increased by UAH 52.91 bln., or 49.8% (after +UAH 21.2 bln., +27.2% in Q2), and comprised UAH 159.19 bln. (including futures and options market; and without derivatives – UAH 153.75 bln.).

However, just as before, the main part of trades (71.6%, as per the NSSMC data) was in government securities, the aggregate value of transactions in which made on all exchanges went up by 42.7% to UAH 114.00 bln. The total volume of trades in equities increased even faster – by 155.7%, up to UAH 22.85 bln. Corporate bonds were also getting more popular – growth here reached 34.2% (UAH 14.15 bln.). At that, rapid growth of trading volumes in Q3 was observed on USE (from UAH 0.02 bln. to UAH 2.29 bln.), KISE (from UAH 2.21 bln. to UAH 5.36 bln.), PFTS (from UAH 21.25 bln. to UAH 50.62 bln.), with a significant growth on SE "Perspectiva" as well (from UAH 74.79 bln. to UAH 93.24 bln.), where an increase of transactions in equities comprised 12.5% (+UAH 0.15 bln.), and in bonds – 250.0% (+UAH 2.93 bln.).

In the meantime, trade volumes on UX slumped (-30.5%, from UAH 3.19 bln. to UAH 2.22 bln. on the whole; -22.9%, from UAH 2.41 bln. to UAH 1.89 bln. – without taking into account forward market). That happened in connection with a decline in corporate bonds' trade volumes by 62.6% (-UAH 0.82 bln.).

Thus, a notable imbalance was preserved in Ukrainian stock market, as trades in government debt prevailed. Another aspect worth noting – strengthening of one exchange whilst the rest, where earlier most of trading in corporate securities had been focused, were weakening.

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

In Q3, for the first time since 2013 beginning, the number of asset management companies grew (+2 after -3 in Q 2 and -5 in Q1). At that, the process of entering the market by new participants and exiting from the market by other participants went on. According to the UAIB data, as of 30.09.2013 there were 347 AMC operating in Ukraine, which is 6 companies fewer compared to the year beginning (Chart 2).

The number of registered CII continued to grow – up to 1593 funds (+13 during Q3, +49 since year beginning). Thus, compared to Q2, growth accelerated (+10 funds), but was slower than in Q1 (+26).



Concentration in the CII market continued to grow: as of 30.09.2013 one AMC managed 4.59 funds on average (after 4.58 as of 30.06.2013, 4.37 at year beginning).

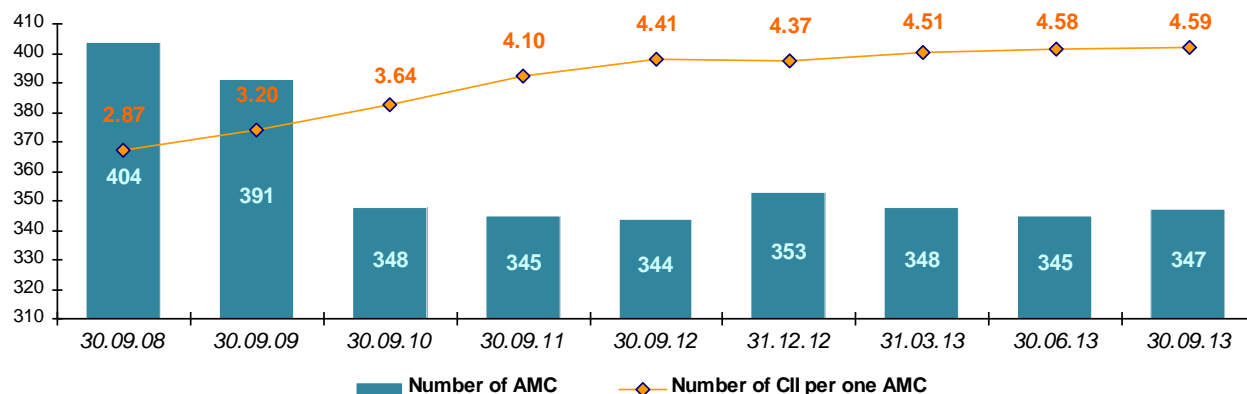


Chart 2. Dynamics of the number of AMC and CII per one AMC in Q3 2008-2013 and during the year

The number of CII that reached compliance with the standard to minimal asset volume in Q3 for the first time since Q4 2012 resumed growth (+35) and as of 30.09.2013 comprised 1239 funds. Traditionally, that was due to an increase in the quantity of venture CII (+36), in particular unit ones (+22) (Table 2).

Among unit funds more closed-end non-diversified ones appeared (+2). Just as in Q1, the quantity of interval funds decreased by one. Among CIF there became fewer closed-end non-diversified funds (-2). The total number of “recognized” closed-end CII remained unchanged.

As of 30.09.2013, as per UAIB data, liquidation procedure had been started by 7 open-ended CII, 4 interval, 4 closed-end non-diversified UIF and 16 such CIF, 24 venture UIF and 3 CIF.

Table 2.

Dynamics of the number of CII that reached compliance with the standards, by the types, kinds, and legal forms of funds in Q3 2013

	Total	UIF					CIF		
		O*	*	CD*	CNN*	CV*	*	CNN*	CV*
30.09.2012	1200	41	39	13	46	817	2	118	124
31.12.2012	1222	41	38	13	45	829	2	110	144
31.03.2013	1213	42	38	11	48	826	1	108	139
30.06.2013	1204	42	37	11	47	828	2	100	137
30.09.2013	1239	42	36	11	49	850	2	98	151
Q3 2013 change	36	0	-1	0	2	22	0	-2	15
	3.0%	0.0%	-2.7%	0.0%	4.3%	2.7%	0.0%	-2.0%	10.9%
Annual change	18	1	-2	-2	4	21	0	-12	8
	1.5%	2.4%	-5.3%	-15.4%	8.9%	2.5%	0.0%	-10.9%	5.6%
Change since year beginning	40	1	-3	-2	3	33	0	-20	28
	3.3%	2.4%	-7.7%	-15.4%	6.5%	4.0%	0.0%	-16.9%	22.6%

\*UIF -unit investment funds, CIF - corporate; O – open-ended, – interval, CD – closed-end diversified, CNN - closed-end non-diversified non-venture, CV - closed-end venture

During nine months of 2013, the number of “recognized” funds grew by 17, at that, there became 21 more venture UIF, and 12 fewer closed-end non-diversified CIF.

The number of CII with asset value below the minimal volume standard among all registered CII under AMC management as of 30.09.2013 notably decreased – to 96 after 120 in Q2. Since year beginning, this indicator, which reflects the expectations as regards CII market growth, remained virtually unchanged (97funds as of 31.12.2012), though during the year it fluctuated significantly (up to 120 in Q2).

Based on the reports, the number of CII with asset value below the normative declined from 116 in Q2 and 115 at the start of 2013 up to 95 in Q3. That occurred owing to all fund categories, in particular – to



the venture one. 16 CII with assets below the normative were open-ended (46% of those funds), 11 (34%) – interval, 24 (19%) – closed-end, 44 (5%) – venture ones.

The number of diversified publicly placed CII in Q3 2013 went on declining and comprised 66 funds (after 75 as of 30.06.2013, 77 as of 31.12.2012). According to the asset structure-based classification<sup>1</sup>, the number of equity funds decreased by one (6), hybrid funds – by 3 (5), “other funds”, or such that did not meet the criteria to equity, bond and hybrid funds, – by 4 (55). No CII were attributed to the classes of bond and money market funds in Q3. (Chart 3).

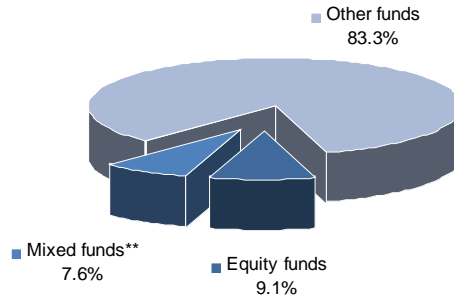


Chart 3. Diversified publicly placed CII, by the classes of funds as of 30.09.2013

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

An increase of the number of AMC from 345 to 347 took place due to the dynamics of Kyiv and Kyiv Region, where the number of companies grew by 5 (245 AMC), and where, nevertheless, membership of 4 AMC in the UAIB was suspended. 2 companies in Kharkiv Region and one in the ARC also left the market (Chart 4).



Chart 4. Regional distribution of AMC number as of 30.09.2013

New participants from Kyiv and Region that entered the market broadened the region's share by AMC number from 69.6% in Q2 to 70.6% in Q3. Since year beginning, growth of the share of Kyiv Region

<sup>1</sup> See Rankings “Diversified public CII – by asset classes” on UAIB website: <http://www.uaib.com.ua>.



also has been registered (70.0% as of 31.12.2012), though the number of AMC used to be greater at year beginning (247 companies).

Within *CII distribution by regions*, Kyiv and Kyiv Region maintained and strengthened their leadership, as the region's share broadened from 71.0% to 71.2% during the quarter (at year beginning – 70.2%). Minor growth occurred in the respective shares of the rest of regions-leaders.

The key changes in the *regional distribution of CII assets under management* were similar ones: Kyiv and Kyiv Region covered 77.9% after 76.1% in Q2 (74.4% at the start of 2013). Dnipropetrovsk and Kharkiv nominally broadened their shares in Q3 – to 8.1% and 4.1% respectively, Odessa – narrowed its share (from 1.11% to 1.08%), and the share of Donetsk decreased substantially – by 1.7 p.p. to 3.7% (Chart 5).



Chart 5. Regional distribution of CII by the number of CII and the value of their assets under management, as of 30.09.2013

#### 4. The Asset and the Net Asset Value of CII

In Q3 2013, CII industry continued growing, though due to the sector of *venture* funds only (Chart 6). An increase in the number of these CII (including reports filed – by 21 compared to Q2) was also accompanied by a significant growth of their assets, which maintained an uptrend of total assets of all CII under management.

In the rest of CII sectors, including *closed-end* funds, the quantity of which remained unchanged, assets decreased. Within the decrease of an aggregate asset value of *open-ended and interval funds* significant role was played by a drop in the quantity of funds that filed reports, as, for example, among 42 open-ended funds as of Q3 end 7 had started liquidation (see it. 2). Finally, 5 reports less were filed by open-ended CII compared to the preceding quarter, and 2 reports less – by interval ones. In the meanwhile, in the sector of closed-end CII, venture ones not included, two more funds filed reports.

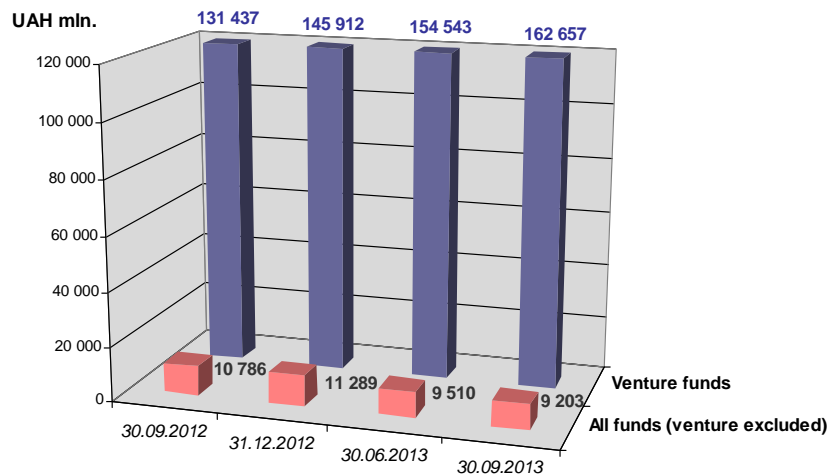


Chart 6. Dynamics of the asset value of CII in Q3 2012-2013



As of 30.09.2013, the total assets of CII comprised UAH 171 860.06 mln. Quarterly growth accelerated – to +UAH 7 807.67 mln. (+4.76%) – owing to venture CII that grew their assets by UAH 114.63 mln. (+5.25%) to UAH 162 657.37 mln.

Since the beginning of 2013 the industry assets increased by UAH 14 658.93 mln. (+9.32%).

The net assets of CII in Q3 grew, just as in Q2, at that, this time not only due to venture, but other closed-end funds as well. The difference in the dynamics of total and net assets of the sector was determined by decrease of its liabilities by more than UAH 300 mln.

As of 30.09.2013, the NAV of all CII comprised UAH 153 660.65 mln., almost succeeding in keeping the growth pace of the preceding quarter (+UAH 8 072.29 mln., +5.54%) (Table 3).

The net assets of *venture* sector in Q3 grew up to UAH 145 233.93 mln. (+UAH 8 078.11 mln., +5.89%). *Interval* CII, with a drop in the quantity of reports filed by 5.88% (minus 2 funds), demonstrated NAV decline by 1.38%, or UAH 1.99 mln., to UAH 141.99 mln. *Open-ended* funds, the quantity of the reports filed by which decreased by 12.5% (-5 CII), lost 18.96%, or UAH 27.87 mln. worth of net assets, as a result, their aggregate NAV was registered in amount UAH 119.15 mln. *Closed-end* CII, at increase of the number of reports filed by 1.61%, grew their net assets by 0.30%, or UAH 24.04 mln., having reached UAH 8 165.58 mln.

Over three quarters of 2013, the NAV of all CII increased by UAH 14 400.07 mln. (+10.34%).

Table 3.

Dynamics of the NAV of CII, by the types of funds, in Q3 2012-2013, UAH mln.

Funds	30.09.2012	31.12.2012	30.06.2013	30.09.2013	Q3 2013 change	Annual change	2013 YTD change
Open-ended	179.72	160.54	147.02	119.15	-18.96%	-33.71%	-25.79%
Interval	164.86	156.00	143.98	141.99	-1.38%	-13.87%	-8.98%
Closed-end (venture excluded)	9 387.73	9 445.63	8 141.54	8 165.58	0.30%	-13.02%	-13.55%
All funds (venture excluded)	9 732.31	9 762.16	8 432.54	8 426.72	-0.07%	-13.42%	-13.68%
Venture funds	116 971.44	129 498.42	137 155.82	145 233.93	5.89%	24.16%	12.15%
All funds (venture included)	126 703.75	139 260.58	145 588.36	153 660.65	5.54%	21.28%	10.34%

As the NAV of the sector of open-ended funds plunged, its share in the CII market as of 30.09.2013 narrowed to 1.4% (from 1.7% in Q2 and 1.6% at the start of 2013) (Chart 7). The share of interval funds also narrowed, but notably less, and was the same as a year ago – 1.7%. In such way, closed-end CII in Q3 broadened their respective share to 96.9% (after 96.6% in Q2 and 96.8% at the start of 2013).

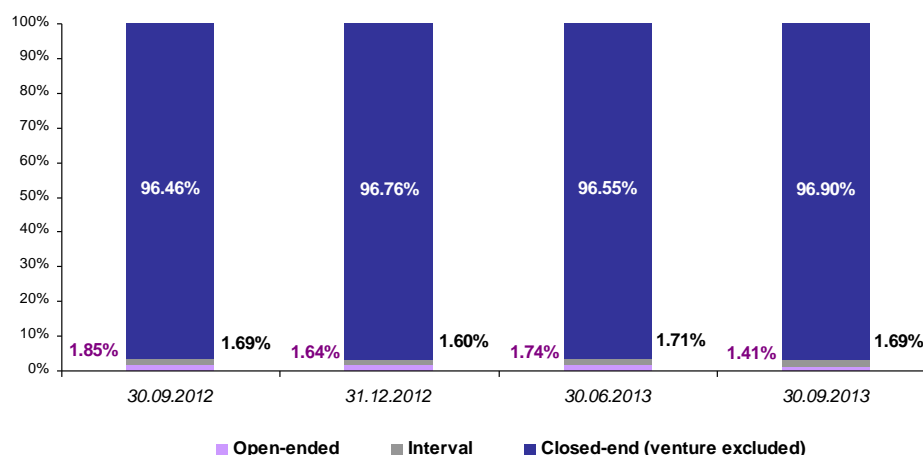


Chart 7. Dynamics of non-venture CII NAV breakdown by the types of funds in Q3 2012-2013





Venture funds, by increasing asset number and value, broadened their CII market share in Q3 from 94.2% to 94.5% (Chart 8). Over nine months of 2013 it grew 1.5 p.p.

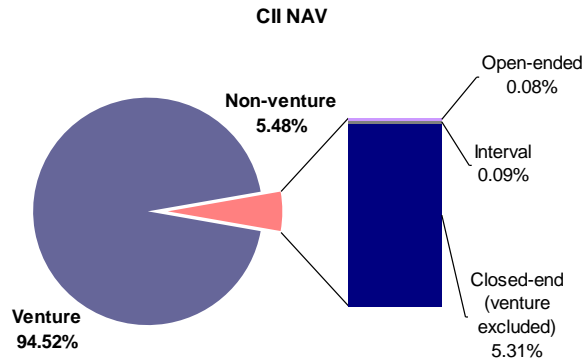


Chart 8. Distribution of CII NAV by the types of funds as of 30.09.2013

### 5. Net Capital Inflow/ Outflow in Open-Ended CII

Capital outflow from open-ended CII, which had resumed in Q2, grew twice in Q3. More than a half of the said outflow – UAH 15.6 mln. – occurred in August, making it the greatest net outflow of 21 months since November 2011. However, in September it subsided to UAH 2.4 mln. and was only a little greater than in September 2012 (Chart 9, Table 4).

The impact of two funds on the overall performance each month was again very significant – between 31% and 84%, at that, the most substantial outflow took place in a money market fund.

There were between 2 and 3 open-ended CII that registered additional capital inflow in July-September (after 4-9 funds in April-June). An aggregate net inflow of such funds slumped and over three months they additionally attracted UAH 0.2 mln. only (after UAH 1.26 mln. in Q2).

The number of funds that experienced net outflow in Q3 remained virtually unchanged – 13-18 after 13-21 in the preceding quarter.

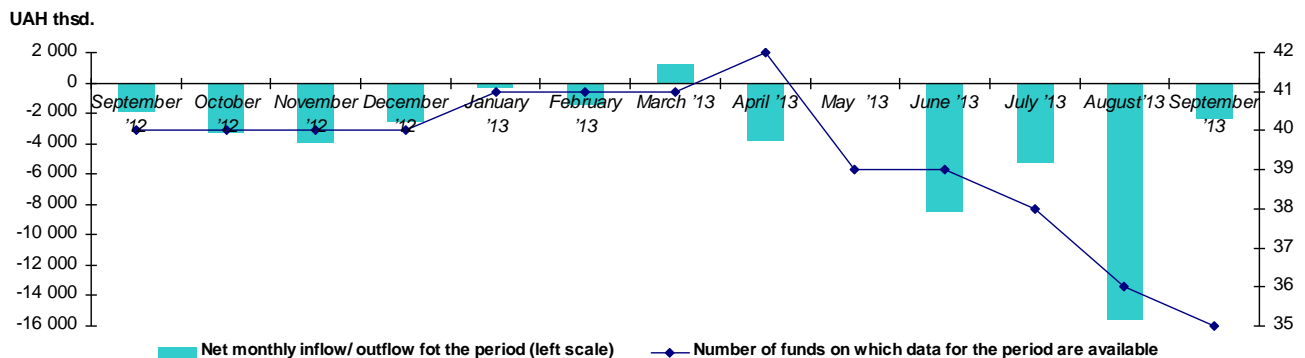


Chart 9. Monthly net inflow/ outflow of capital in open-ended CII in September 2012-2013  
\*based on daily data



Table 4.

## Monthly net inflow/ outflow of capital in open-ended CII in September 2012-2013\*

Month	Net monthly inflow/ outflow for the period	Number of funds on which data for the period are available
September '12	-1 873	40
October '12	-3 333	40
November '12	-3 963	40
December '12	-2 532	40
January '13	-363	41
February '13	-1 392	41
March '13	1 297	41
April '13	-3 870	42
May '13	-70	39
June '13	-8 467	39
July '13	-5 268	38
August '13	-15 623	36
September '13	-2 360	35

\* Based on daily data

An aggregate net outflow from open-ended CII in Q3 2013 comprised over UAH 23 mln., which was the highest indicator not only of the last five quarters (Chart 10), but since the beginning of 2012 as well (in Q1 2012 – UAH 26 mln.). Thus, the market of open-ended CII accelerated phase down.

Since the beginning of 2013, from open-ended CII was withdrawn UAH 36 mln., and over year – UAH 46 mln., in other words, net outflow during this quarter grew by 52%, or by half (from –UAH 30.28 mln.).

Under conditions of sagging stock market, in Q3 the impact of capital outflow on the open-ended CII sector NAV dynamics somewhat lowered, but remained its key driver. For instance, it comprised 83% of the sector net assets' decrease (after 107% in Q2). In annual terms, the share of net outflow in the NAV decrease of open-ended funds went down from 78% to 76%.

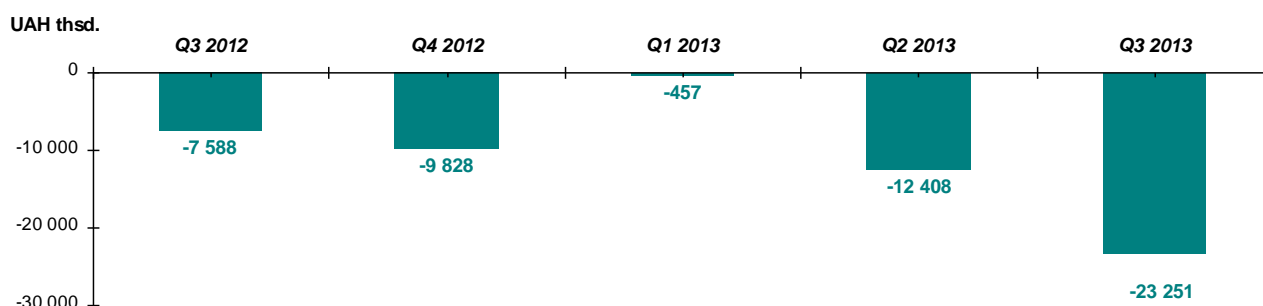


Chart 10. Net inflow/ outflow of capital in open-ended CII in Q3 2012-2013

Whilst capital outflow from the Ukrainian market of open-ended CII in Q3 2013 sped up, inflow into European public funds was also accelerating due to improvement of economic indicators in well-developed countries, though in August-September additional contributions into funds somewhat weakened.

With the rates on debt markets doing up, confidence returning to investors as regards support of market liquidity by the US FRS, as well as subsiding geopolitical tension in the Middle East, this quarter these were *equity funds* that attracted most of additional investments (EUR 30 bln.), just as it had been expected. *Money market funds*, which in Q2 had suffered most, in Q3 remained among outsiders (-EUR 9 bln.), though in August they generated the greatest inflow (EUR 15 bln). *Bond funds* demonstrated the first since 2011 quarterly outflow, which reached EUR 12 bln., and balanced funds received additional contributions amounting to EUR 20 bln.

All in all, open-ended European funds UCITS additionally attracted EUR 34 bln. during Q3, after EUR 12 bln. in Q2<sup>2</sup>.

<sup>2</sup> See [EFAMA European Quarterly Statistical Release Q3 2013](#), [Quarterly Statistical Report Q3 2013](#)





## 6. The Investors of CII

Institutional investors-residents in Q3 preserved their leadership by the volumes of investments into CII, though the share of *legal entities – residents* within the aggregate NAV narrowed from 78.5% to 76.8%, which is significantly lower compared to the start of 2013 (80.0%). Aggregate contributions of these investors over Q3 grew by UAH 2 355.34 mln. (after +UAH 7 629.53 mln. in Q2 and –UAH 4 711.43 mln. in Q1), which was connected with investments into venture funds.

*Foreign institutional investors* in Q3 were the leaders by increase of investments into CII in Q3 – their share grew by UAH 3 337.70 mln., to 18.8% (from 17.4% in Q2).

*Natural persons-residents* also accelerated the pace of growing their investments into funds – +UAH 687.42 mln. within the aggregate NAV, to 4.4%, including venture – +UAH 545.33 mln., to 2.9%, and closed-end non-venture ones – +UAH 164.83 mln., to 29.2%.

In such way, a relatively faster increase of investments into CII by non-residents and citizens of Ukraine resulted in redistribution of the industry NAV in Q3 to their benefit (Table 5, Chart 11).

Table 5.

*CII NAV breakdown by the categories of investors as of 30.09.2013, % of NAV*

Funds	Legal entities		Natural persons	
	residents	non-residents	residents	non-residents
Open-ended	48.89%	5.67%	45.38%	0.06%
Interval	56.04%	0.76%	43.11%	0.08%
Closed-end non-venture	63.64%	6.93%	29.16%	0.26%
<b>All funds (non-venture)</b>	<b>63.31%</b>	<b>6.81%</b>	<b>29.63%</b>	<b>0.26%</b>
Venture funds	77.55%	19.51%	2.87%	0.07%
<b>All funds (venture included)</b>	<b>76.76%</b>	<b>18.81%</b>	<b>4.35%</b>	<b>0.08%</b>

National, as well as foreign companies, decreased their contributions into *non-venture* funds in Q3 (-UAH 49.53 mln., to 63.3%, and –UAH 136.58 mln., to 6.8%, respectively). In the meantime, contributions of retail investors grew both nationally and from abroad, but solely owing to closed-end CII. For instance, investments of *natural persons-residents* increased by UAH 142.09 mln., and those of non-residents – by UAH 5.31 mln. Finally, the share of citizens of Ukraine in non-venture funds broadened from 27.8% to 29.6%, and the one of foreigners – from 0.19% to 0.26%.

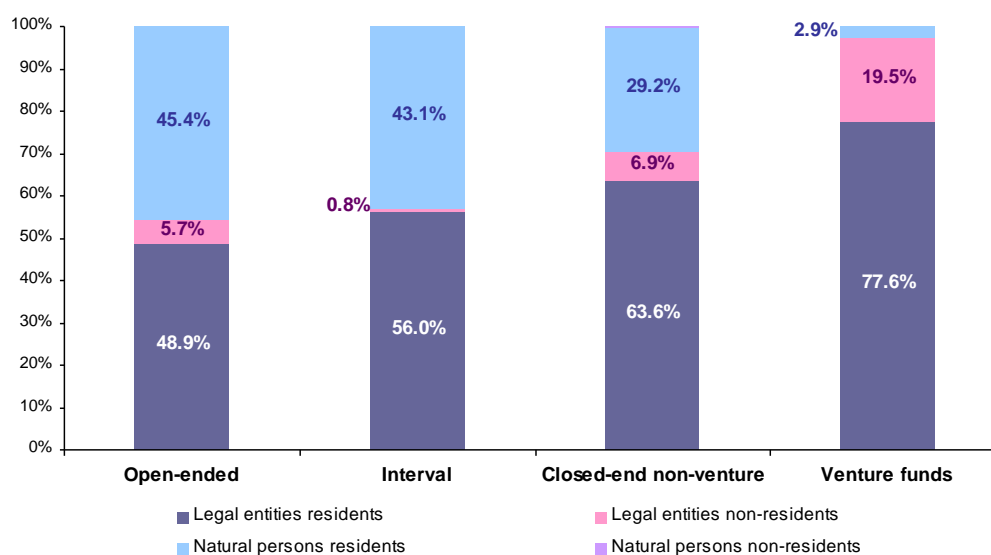


Chart 11. CII NAV breakdown by the categories of investors as of 30.09.2013, share of NAV



In Q3 2013, in **open-ended CII** the breakdown of NAV by investor categories changed abruptly. An active withdrawal of capital by *natural persons-residents* (-UAH 21.17 mln. of NAV), despite a decrease in the contributions of *legal entities-residents* (-UAH 4.53 mln.) and other contributors as well, resulted in redistribution of the shares of investments in these funds to the benefit of national institutional investors, whose share grew from 42.7% to 48.9% (at the start of 2013 it had equaled 42.5%). Citizens of Ukraine for the first time gave the pas – their share dropped from 51.2% to 45.4% (at year beginning – 46.4%). That was a sharp turn after Q2 when the share of Ukrainians within the NAV of open-ended funds had exceeded 50% for the first time during one and a half years.

*Foreign investors*, in particular *natural persons*, continued to quickly get rid of their investments into open-ended funds. However, in absolute terms, more significant was a decrease in the investments belonging to *legal entities - non-residents* (-UAH 1.91 mln.), which was 2.5 times less compared to Q2, but narrowed their share from 6.1% to 5.7% (at year beginning – 11.0%).

In **interval CI** *natural persons-residents* also led by their contributions' decrease – similarly to Q2 – by UAH 1.57 mln. Finally, these investors' share narrowed from 43.6% to 43.1% (at 2013 beginning they held 44.6%). The rest of investor categories somewhat lowered their participation in interval funds, and a relatively minimal decrease was observed in case of *companies-residents*, as a result of which their share here as the major contributors' one, in Q3 even grew – from 55.6% to 56.0% (at year beginning – 54.5%).

*Non-residents* held only 0.8% in interval funds (virtually unchanged during the quarter; at year beginning equaled 0.9%).

In **closed-end non-venture CII** a notable decrease occurred in the contributions of *legal entities* – both *residents* (-UAH 44.60 mln) and *non-residents* (-UAH 134.64 mln). In the meantime, the share of Ukrainian citizens' and other countries' citizens' moneys grew. In such way, the investments of *natural persons-residents* increased by UAH 164.83 mln., and of non-residents – by UAH 5.57 mln. As a result, the share of *national institutional investors* went on narrowing from 64.1% to 63.6% (69.9% at year beginning), and of foreign ones – from 8.6% to 6.9%, and the share of *natural persons*, in particular, *residents* – from 27.1% to 29.2% (at year beginning – 23.1%).

Relatively greatest increase occurred in the aggregate investments of *foreign citizens* into closed-end funds, though its comprised UAH 5.57 mln. only. These investors' share in this sector remained negligible (0.26% after 0.20% in Q2 and 0.14% at year beginning).

In the sector of **venture CII** in Q3 2013 asset growth accompanied by an increase of funds' quantity continued – mainly owing to *companies – non-residents* (+UAH 3 474.27 mln.), as well as *residents* (+UAH 2 404.86 mln.). *Natural persons – residents* grew aggregate contributions by UAH 545.33 mln., and non-residents – by UAH 49.01 mln.

Thus, an increase of contributions to venture funds on the part of *legal entities-residents* was slower compared to other investor categories, which resulted in narrowing of their share within the venture sector NAV from 79.5% to 77.6% (at year beginning - 80.8%). *Foreign institutions*, in the meantime, broadened their presence (17.9% after 19.5% in Q2 and 16.8% at year beginning). The share of contributions of *retail investors – residents* grew from 2.6% to 2.9% (at year beginning – 2.4%).

## **7. The Asset Structure of CII**

The key changes in the asset structure of CII by the **types of instruments** in Q3 2013 consisted in a decrease of the share and aggregate investments into **securities** in CII portfolios – from 52.0% to 47.7% in open-ended (decrease for the sixth quarter in a row), from 54.6% to 51.3% in closed-end and from 75.4% to 74.5% in interval funds (Chart 12).

That took place under conditions of a further decrease of the aggregate value, as well as of the share of **corporate bonds** in aggregate portfolios of all sectors of funds, with exception of venture CII (including in open-ended – by UAH 4.74 mln., interval – by UAH 1.61 mln., and closed-end – by UAH 155.76 mln.).



That was also promoted by a decrease of investments into **municipal bonds** – in all sectors without exception (in particular, in open-ended ones – by UAH 6.47 mln.).

In the meantime, in all CII sectors the share of **equities**, as well as **OVDP**, grew, though the aggregate investments of funds into shareholders' equity lost in value in all CII sectors, with exception of the venture one (in particular, in open-ended – by UAH 3.26 mln., and in closed-end – by UAH 157.69 mln.), and into government securities – in open-ended and interval funds (-UAH 5.28 mln. and -UAH 0.09 mln. respectively).

Aggregate **moneys on bank accounts** also decreased in open-ended and interval funds (-UAH 6.80 mln. and -UAH 0.04 mln. respectively), though, in connection with the dynamics of investments into other types of assets, the share of moneys within aggregate portfolios of these CII sectors increased. It expanded also in the aggregate portfolio of closed-end non-venture funds.

Investments into **"other assets"**<sup>3</sup> broadened their presence in the portfolios of all CII sectors, with exception of the venture ones, though it is particularly in the latter that the aggregate value of such assets grew significantly. In the meantime, in open-ended and closed-end CII it lowered by UAH 1.53 mln. and UAH 24.55 mln. respectively.

In Q3, moneys remained the key asset in open-ended funds, which comprised above 1/3; whilst in interval ones almost 2/3 of assets were in equities, which in closed-end non-venture funds amounted up to more than 1/3, just as "other" assets.

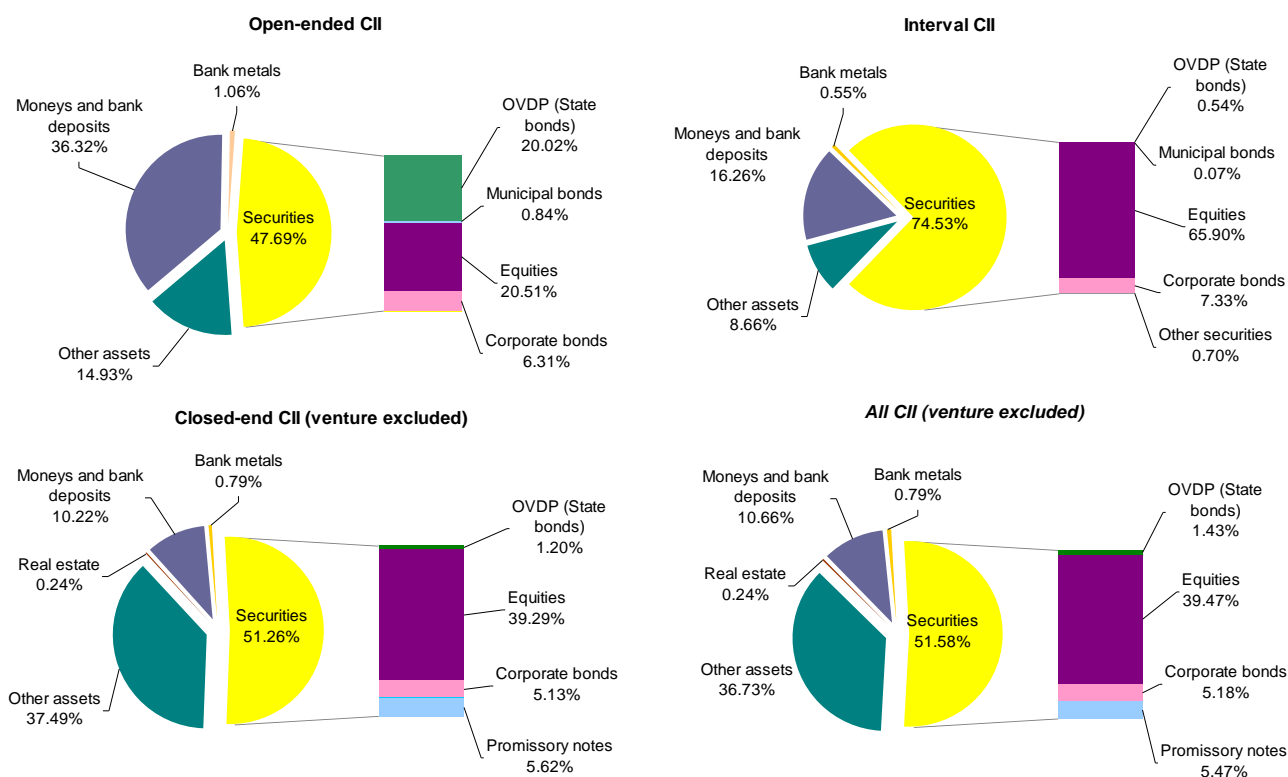


Chart 12. CII asset structure, venture funds excluded, by the types of funds as of 30.09.2013

The key changes in the structure of the aggregate CII portfolios by the types of funds in Q3 2013 were as follows:

#### Open-ended funds

Increase of the share of investments into such instruments:

- moneys and bank deposits – from 34.0% to 36.3%;

<sup>3</sup> "Other assets" include receivables, corporate rights in other forms than securities, as well as loans to the companies, a stake in the capital of which belongs to the CII (for venture funds).



- “other assets” – from 13.1% to 14.9%;
- equities – from 18.8% to 20.5%;
- OVDP – from 19.8% to 20.0%;

**Decrease:**

- municipal bonds – from 5.1% to 0.8%;
- corporate bonds – from 8.3% to 6.3%;

**Interval funds****Increase:**

- “other assets” – from 8.1% to 8.7%;
- moneys and bank deposits – from 16.0% to 16.3%;
- equities – from 65.7% to 65.9%;

**Decrease :**

- corporate bonds – from 8.3% to 7.3%;

**Closed-end (with exception of venture) funds****Increase:**

- “other assets” – from 35.8% to 37.5%;
- moneys and bank deposits – from 8.6% to 10.2%;
- equities – from 38.9% to 39.3%;
- OVDP – from 1.0% to 1.2%;

**Decrease:**

- promissory notes – from 8.2% to 5.6%;
- corporate bonds – from 6.5% to 5.1%.

Within the aggregate portfolio of **venture CII** assets in Q3 2013 an increase occurred in the investments into *securities* – due to *equities* (+UAH 2 627.68 mln.), *corporate bonds* (+UAH 1 370.50 mln.) and *promissory notes* (+UAH 1 873.45 mln.). The share of stock market instruments grew to 31.2%.

Aggregate investments of these CII into savings certificates decreased (-UAH 570.83 mln.), just as, though very modestly, investments into mortgage securities (-UAH 19.42 mln.) and municipal bonds (-UAH 3.55 mln.).

The greatest growth in absolute terms was observed in the investments into “other assets” (+UAH 5 316.60 mln.), though their growth pace was relatively slower than the one of the above-mentioned securities, as a result of which these assets’ share within the aggregate portfolio of venture funds narrowed by 1.2 p.p. to 63.9% (Chart 13).

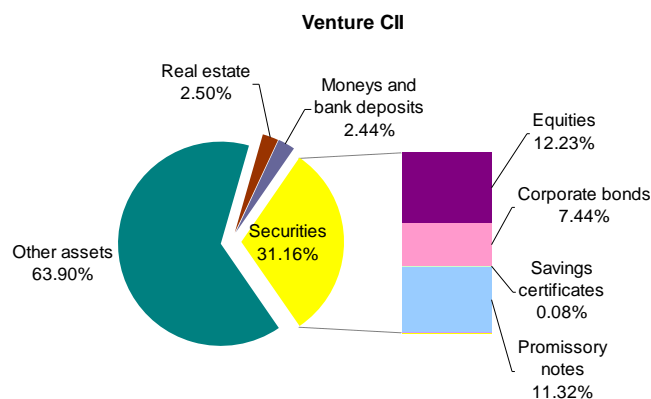


Chart 13. Venture CII asset structure as of 30.09.2013

The key changes in the structure of the aggregate **venture CII** portfolio in Q3 were as follows:

**Increase:**

- equities – from 11.4% to 12.2%;
- promissory notes – from 10.9% to 11.3%;



- corporate bonds – from 7.1% to 7.4%;

Decrease:

- “other assets” – from 65.0% to 63.9%;
- savings certificates – from 0.5% to 0.1%.

In Q2 2013 *equities* remained the greatest, by an aggregate value of investments thereto, class of securities within the aggregate portfolio of *all CII*. Furthermore, owing to an increase of investments thereto on the part of venture funds, which exceeded their investments into other security types, the equities' share within the portfolio of CII financial instruments went up from 41.5% to 42.4%, in money terms – by UAH 2 465.45 mln. (after +UAH 582.29 mln. in Q2) to UAH 23 516.61 mln. (Table 6). Since year beginning, aggregate CII assets in equities have grown by UAH 2 093.67 mln.

*Promissory notes* remained second by the volume of accumulated investments within CII portfolios, at that, they also increased substantially – by UAH 1 607.59 mln. to UAH 18 908.00 mln., though their share remained unchanged (34.1%). Since year beginning the investments into promissory notes grew by UAH 124.00 mln.

*Corporate bonds* closed the trio of leaders, thus outperforming other types of stock market instruments into which CII invest by two orders of magnitude. Investments into them grew by UAH 1 208.39 mln. to UAH 12 570.41 mln., which expanded their share within the aggregate portfolio from 2.4% to 22.7%. Since year beginning, assets in corporate debt securities have grown by UAH 1 618.91 mln.

In relative terms most substantial changes included a drop of CII investments held in *municipal bonds* (-UAH 10.68 mln.) and *savings certificates* (-UAH 569.58 mln.): aggregate investments into the former lowered by 90%, and into the latter – by 82%. However, the volume of CII investments in savings certificates since the beginning of 2013 in Q3 grew by UAH 125.54 mln.

The volumes of *derivatives* in CII portfolios during the quarter once again grew – by UAH 42.40 mln., after +UAH 6.16 mln. in Q2, and their share broadened from 0.02% to 0.09%. Since the beginning of 2013, assets in derivatives increased by UAH 46.63 mln.

All in all, *all CII securities portfolio* in Q3 enlarged substantially – by UAH 4 732.94 mln. (after – UAH 2 055 mln. over three preceding months) to UAH 55 424.56 mln. Since the beginning of 2013 it grew by UAH 3 808.69 mln.

Table 6.

Value breakdown of CII aggregate securities portfolio, by the types of instruments, as of 30.09.2013		
Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	23 516 610 537	42.43%
Promissory notes	18 908 007 818	34.11%
Corporate bonds	12 570 408 998	22.68%
Internal state loan bonds (OVDP)	136 280 678	0.25%
Savings certificates	125 535 348	0.23%
Mortgage securities	107 456 051	0.19%
Derivatives	51 287 209	0.093%
Treasury bonds	7 818 450	0.014%
Municipal bonds	1 151 488	0.002%
<b>Total</b>	<b>55 424 556 578</b>	<b>100.00%</b>

An aggregate portfolio of *open-ended, interval and closed-end (except venture ones) CII* in Q3, together with the assets of funds on the whole, went on decreasing (-UAH 589.83 mln.). The assets in *promissory notes* (-UAH 265.87 mln), *equities* (-UAH 162.23 mln.) and *corporate bonds* (-UAH 162.11 mln.) plummeted. As far as equities prevailed within the aggregate portfolio of non-venture funds, a drop of investments thereto did not result in narrowing of their share – it grew from 73.7% to 76.5%. In the meantime, the shares of promissory notes and corporate bonds narrowed – from 11.9% to 10.6% and from 11.1% to 10.1% respectively (Table 7).



Most significant drop occurred in the investments of non-venture CII into *municipal bonds* (-UAH 7.13 mln.) – by 86%, which had already been tiny .

Since the beginning of 2013, the portfolio decreased by UAH 1 841.53 mln.

Table 7.

Value breakdown of non-venture CII aggregate securities portfolio, by the types of instruments, as of 30.09.2013

Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	3 632 748 585	76.53%
Promissory notes	503 189 194	10.60%
Corporate bonds	476 900 290	10.05%
Internal state loan bonds (OVDP)	131 616 632	2.77%
Savings certificates	1 257 092	0.03%
Municipal bonds	1 151 488	0.02%
<b>Total</b>	<b>4 746 863 281</b>	<b>100.00%</b>

## 8. The Rates of Return of CII

In Q3 2013, the yield on investments into non-ventures CII suffered from stock market dynamics, which continued downward movement, with losses reaching 2.1-3.6%. The share of equities all in all comprised between 21% in open-ended and 66% in interval funds, though in some CII it reached 80%, which negatively affected their rates of return. Simultaneously, CII securities' value growth was promoted by the rates of return on other types of assets, in particular deposits, which comprised between 10% in the assets of closed-end and 36% – of open-ended funds, and in certain funds were the key asset component.

On the whole, an average rate of return on investments into funds in Q3 grew, and, oppositely to the indicators of Q2, was positive throughout all sectors.

The highest performance result, once again, was demonstrated by *interval CII* (+1.6% after -1.3% in Q2), and neared to the rate of return on *deposits in USD* (+1.9%)<sup>4</sup>. *Closed-end funds* this time became second best (+1.0% after -3.2% in Q2), and *open-ended* ones earned nominal +0.2% (after -1.8%).

Since the beginning of 2013, *open-ended CII* generated -1.8% on average – the poorest result among non-venture funds. *Closed-end CII* demonstrated an average of +0.3%, and *interval CII* strengthened their leadership with +6.5% (Chart 14).

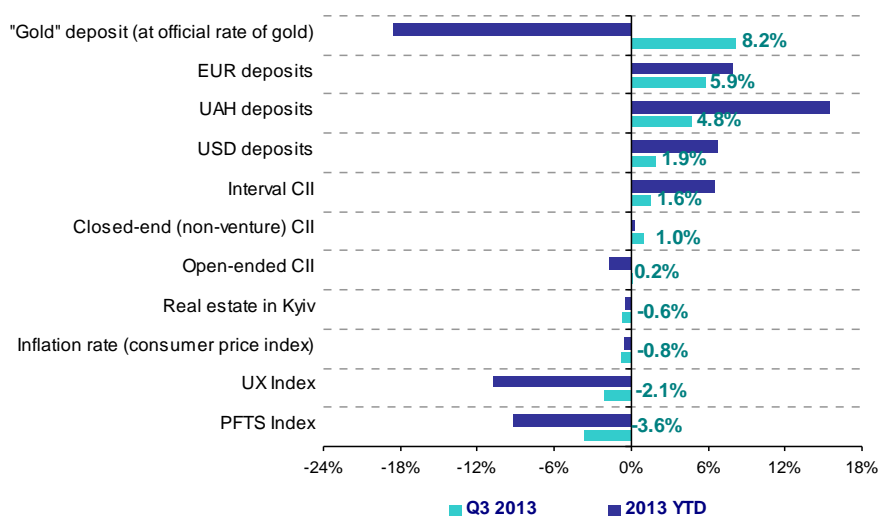


Chart. 14. Average rates of return – CII, deposits, equity indexes and inflation rate in Q3 2013 and year-to-date<sup>5</sup>

<sup>4</sup> It is necessary to take into consideration the liquidity of CII, in particular, of open-ended type, which allow to exit from investments on any working day without losing returns, unlike in case of bank deposits, the prevailing majority of which envisage re-calculation of interest income in case of an early release of moneys based on the rate of return on current accounts (up to 3% per annum). In the meantime, the rates of return calculated do not take into account possible commissions, other costs incurred at entry to/ exit from funds, as well as investment profit taxation.





In Q3 funds' rates of return varied greatly depending on CII type, investment strategy and actual makeup of assets. In such way, among open-ended funds it substantially lowered, among interval ones – grew and in closed-end ones hardly even changed.

In the sector of **open-ended CII** it decreased substantially, with the range of performance indicators being between -13.8% and +9.3% (in Q2 – between -36% and +15%). Funds' rates of return were more or less evenly distributed, with exception of the lowest indicator, though it did not significantly affect an overall result. *19 out of 34 funds managed to increase their NAV per share* (after 15 out of 40 in Q2), among which one earned more than *deposits in gold* (+8.2%), two – more than UAH deposits (+4.8%) (just as in Q2).

Among **interval CII** rates of return varied within the range of -8.4% and +39.1% (in Q2 – between -21% and +12%), though majority of performance results significantly lagged behind two top indicators, without taking which into account an average sector indicator would be close to zero. All in all, *18 out of 32 these CII demonstrated investments' value growth* in Q3 2013 (after 12 out of 33 in Q2), at that, three of them – above the rate of return on UAH deposits, and 2 – deposits in EUR.

The range of the rates of return of **closed-end CII** was traditionally the broadest one, and, simultaneously, rather evenly shifted upwards – between -49.4% and +54.9% (after -76% and +26% in Q2). However, only *44 out of 122 closed-end funds increased the value of their contributors' investments* (after 39 out of 130 in Q2), at that, 17 CII ensured rates of return above those on UAH deposits (after 8 in Q2) and 12 – above those on EUR deposits

Year to date, *UAH deposits* proved to be the most profitable (+22.0%), and *gold deposits* – Q3 leaders – most loss-making ones (-22.6%). UX and PFTS indexes during the said period lost 15.9-19.2%, at that, non-venture CII earned on average between -6.22% (open-ended) and +6.1% (closed-end ones).

Among the classes of **diversified publicly placed CII** (based on a current structure of their assets) most successful performance in Q3 was demonstrated by *equity funds*, which generated +5.4% on average (after -1.2% in Q2) (Chart 15). However, among them once again was a fund with a very different indicator (+39.1%), without taking which into account an average sector rate of return was negative (-1.3%), though 2-3 times higher than equity indexes' indicators. Since the beginning of 2013, equity funds earned 6.0%.

*Hybrid funds* generated +1.9% on average, and, without taking the leader with +14.6% into account, the performance result equaled -1.3% (in Q2 average rate of return was -1.0%). The rate of return since year beginning in this class comprised -1.4%.

*“Other” funds*, which inter se were very different by investment strategies, both due to a comparatively significant quantity of CII in this class, and due to high thresholds set forth for attributing funds to specialized classes (equities, bonds, money market)<sup>6</sup>, earned on average +0.3% (in Q2 – -1.9%). At that, the leader had +9.3%, and the outsider – -13.8%. Year to date, these funds demonstrated -1.3%.

In Q3 no CII were attributed to *money market funds and bond funds*. The only fund that had been attributed to the former in Q2 and demonstrated +3.9% then, in Q3 was among “other” funds and generated -2.9%. *Bond funds* were absent for the second quarter in a row; the CII that had been in this class in Q1 and demonstrated +3.3% then, in Q3 was the leader among “other” funds.

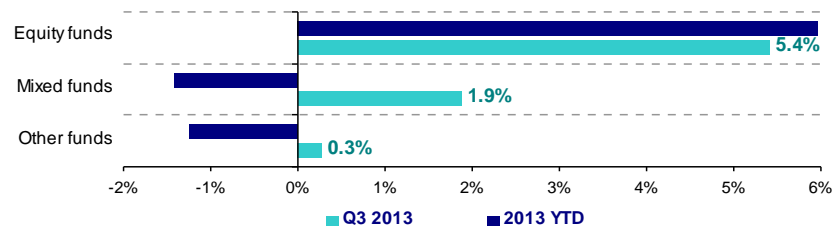


Chart 15. Average rates of return of diversified publicly placed CII, by the classes of funds, in Q3 2013 and year-to-date

<sup>5</sup> CII rates of return are calculated based on the reporting data for Q3 2013 (34 open-ended, 32 interval and 122 closed-end CII) and Q2 2013 (40 open-ended, 33 interval and 130 closed-end CII) - see Ranking of the rates of return of open-ended, interval and closed-end funds. The inflation rate provided is based on the State Statistics Committee data (Consumer price indexes – 2012). Return on real estate is calculated as an average based on the data on Kyiv real estate value from web portals: : <http://www.domik.net>, <http://100realty.ua>, <http://realt.ua>.

<sup>6</sup> See, [Methodology for Ranking Asset Management Companies and Collective Investment Institutions \(Unit and Corporate Investment Funds\) Based on Their Performance Results.](#)



## **9. Resume**

The stock market, which maintained downtrend in Q3 2013, brought moderate results to the industry of collective investment institutions under conditions of the lack of interest on the part of foreign investors and remaining internal restraining factors. That, to a great extent, was due to its limited impact on funds investing into securities – owing to a decrease of their share within asset structure of such CII, as well as due to a substantial dominance of venture funds, which by their nature hardly depend on stock indexes' dynamics.

*The key trends of the Ukrainian CII market in Q3 2013*, in addition to the mentioned narrowing of the share of securities in the portfolios of open-ended, interval and closed-end non-venture funds, included: resuming AMC number growth and a stable growth of CII – owing to venture funds; continuing narrowing of the sectors of open-ended and interval funds; a substantial acceleration of capital outflow from open-ended CII being a stage of winding up of a number of such funds; and a growth of CII rates of return by all types and classes of funds.

For the quarterly changes in the structure of different CII sector portfolios were also characteristic a decrease of the assets in corporate and municipal bonds, as well as narrowing of their share within portfolio structures of all non-venture CII sectors, along with an increase of the shares in equities, OVDP, moneys and “other” assets also in all sectors. Simultaneously, open-ended and interval CII cut their investments into government securities, as well as bank deposits; all non-venture sectors decreased their assets in equities, and open-ended and closed end funds – in “other” assets as well.

Venture funds in Q3 remained attractive for institutional investors – national as well as foreign ones, whilst citizens of Ukraine and foreign citizens were also actively growing investment volumes into closed-end CII. The share of natural persons-residents in venture funds and CII on the whole broadened, though in open-ended CII retail investors lost their leadership, having given way to national institutional investors.

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### ***Additional information on CII on the UAIB website:***

- [Funds' dynamics](#) (publicly placed funds)
- *Analytical reports and statistics of public investment funds:*
  - [Weekly](#)
  - [Monthly](#)
- *Rankings:*
  - [CII – by types of funds](#)
  - [CII- by classes of funds](#)