



## **Contents**

<i>1. Asset Management Industry. General Overview</i>	<i>2</i>
<i>2. CII Asset Management Market Results</i>	<i>3</i>
<i>2.1. Number of AMCs and CIIs</i>	<i>3</i>
<i>2.2. Regional Breakdown of AMCs and CIIs</i>	<i>5</i>
<i>2.3. Assets and Net Asset Value of CIIs</i>	<i>7</i>
<i>2.4. Net Capital Flow in Open-Ended CIIs</i>	<i>9</i>
<i>2.5. CII Investors</i>	<i>12</i>
<i>2.6. CII Asset Structure</i>	<i>14</i>
<i>2.7. Rates of Return: CIIs and Other Investment Tools</i>	<i>17</i>
<i>3. Summary</i>	<i>19</i>



## 1. Asset Management Industry. General Overview

### Number of Market Participants

#### Asset Management Companies (AMCs)

In the 4th quarter of 2018, the number of *asset management companies* increased by 4, to **296**, that is, it returned to the level at the beginning of the year. In October-December 5 new AMCs were created, while one was closed. The number of AMCs newly created and closed during the year equaled 12.

#### Collective Investment Institutions (CII)

27 new CII were registered in the 4th quarter, and 91 - for the whole year 2018. Taking into account the funds, that were closed, as at December 31, 2018, *the total number of registered CII* increased by 1.1% for the 4th quarter and by 4.8% for the year, to **1,783**.

*Number of CII, which have reached norms for minimum asset value (formed ones)*, grew for the fifth quarter in a row - up to **1,228** (+1.6% for the 4th quarter, +5.2% for the year).

In total, at the end of 2018, 283 AMCs managed from one to 37 funds, and more than 99% of all such AMCs managed at least one venture fund.

#### Non-State Pension Funds (NPFs)

Number of *NPFs under management* as at 31.12.2018 remained at the level of **58** (excluding the NBU corporate fund), including 45 open, 7 corporate and 6 professional ones. In total, there were 34 AMCs managing NPF assets.

#### Insurance Companies (IC)

*Number of IC that had transferred their assets under AMC management* in December of 2018 decreased to **2** – along with the termination of activity on managing of IC assets by one among two of asset management companies that provided such services. So as at 31.12.2018, only one AMC had assets of insurance companies under its management.

### Assets under Management and NAV

#### All Institutional Investors

*Total assets under AMC management* increased by 4.7% for the 4th quarter and as at December 31, 2018 amounted to **UAH 314,820.9 M**. Annual growth for the whole year 2018 was 18.7%.

#### Collective Investment Institutions (CII)

*Total assets of all CIIs under management*, including those that have not yet reached the norms, increased by more than 4.7% in the 4th quarter, and for the whole year by 18.8%, to **UAH 313,327.2 M**.

*Assets of operating CII that have reached the norm for minimal asset value* ('established' CII) grew by 1.1% in the fourth quarter, and for the full year 2018 - by 7.7% (after +14.5% in 2017) and as at 31.12.2018 amounted to **UAH 296.8 bln**. Growth slowed down due to some decrease of number of closed-end funds with private and public placement and in conditions of closing of a number of funds in the sector of venture CII, despite general increase of the number of these funds.

*Net asset value of formed CII* ('established' ones) in the 4th quarter of 2018 increased by 1.4%, and in 2018 - by 5.7% (after +18.5% in 2017). As at December 31, 2018 it has reached **UAH 235 833.2 M**.

#### Non-State Pension Funds (NPFs)

*NPF assets under AMC management* increased in the 4th quarter of 2018 increased by 2.6% and for the year - by 14.3% (after +15.2% in 2017). As at 31.12.2018, they reached **UAH 1,364.1 M**.

#### Insurance Companies (IC)

*ICs' assets under AMC management* decreased by 28.9% in the 4th quarter of 2018 and by 35.2% for the year (after +127.5% in 2017). As at 31.12.2018, these assets amounted to **UAH 80.0 M**.

## 2. CII Asset Management Market Results

### 2.1. Number of AMCs and CIIs

Number of asset management companies declined throughout the year, but increased by 4 in the 4th quarter of 2018, bringing it back to the level that was at the beginning - 296 (Chart 1). In the 4th quarter, according to the UAIB, 5 new AMCs were created, while one was closed. The number of newly created and closed during the year AMCs equaled 12.

In October-December of 2018, the same as in July-September, 27 new CIIs were registered. Taking into account the funds which were closed during the 4th quarter, as at December 31, 2018, the **total number of registered CII**, according to the UAIB, increased to **1,783** (+1.1% for the 4th quarter and +4.8% for the year). Thus, it increased for the third consecutive year (+91, after +76 and +58 in 2017 and 2016, respectively).

**Number of CII that have reached the norm for minimal asset value ('established' ones)** grew for the fifth quarter, or for the second year in a row - to **1,228** (+1.6% for the 4th quarter, +5.2% for the year).

During October-December 36 CII were recognized as valid (after 30 in July-September).

For the whole year 2018, 107 funds (106 venture ones) have reached the standards, that is one and a half times more than in 2017.

In total, by the end of 2018 there were 283 companies with available funds under management (after 284 in 2017). They had from one to 37 funds under management, and over 99% of all AMCs managed at least one venture CII (the same as a year ago).

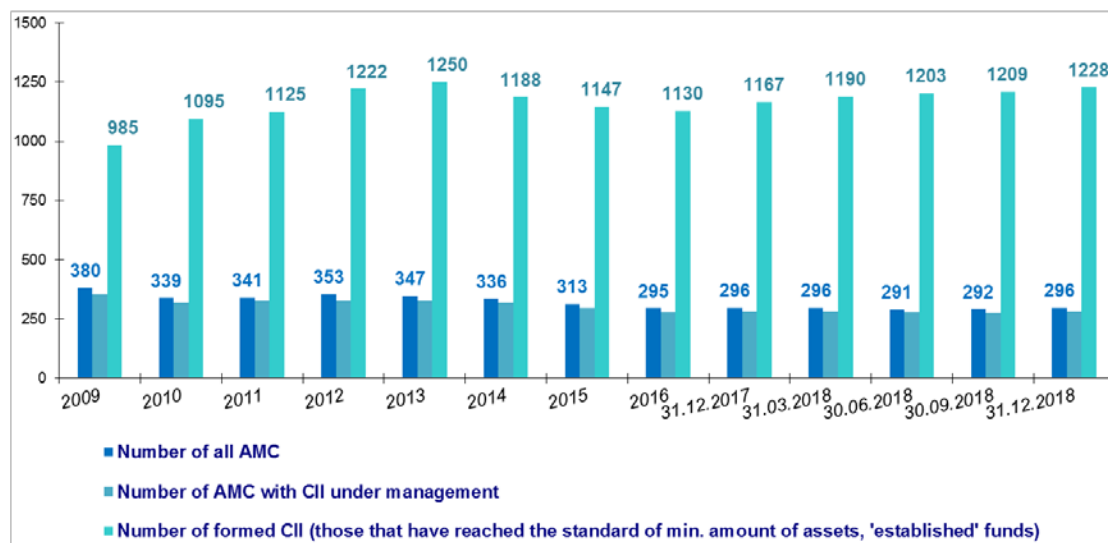


Chart 1. Dynamics of number of AMC and CII in 2009-2018 and in Q4 2018

Among 36 new funds formed during the 4th quarter, which were under AMC management, all of them were venture funds, of which 9 - UIFs, the rest ones - CIFs, which had reached the norm for minimal asset value simultaneously with the state registration in USRCII.

According to the results of the 4th quarter, taking into account the funds which left the market, number of formed acting funds among venture CIFs increased by 19 (+5.6%), whereas of venture UIFs - by 2 (+0.3%, Table 1).

Finally, the share of venture UIF among all CIIs fell to 60.4% (from 64.1% at the beginning of the year and 61.2% in September), although number of venture funds as a whole - grew to 89.8% (from 88.7% and 89.5%,

respectively, Chart 2) . In December of 2018, there were totally 1,103 of venture CII (+21, +1.9% for the 4th quarter, +68, or +6.6% for the year).

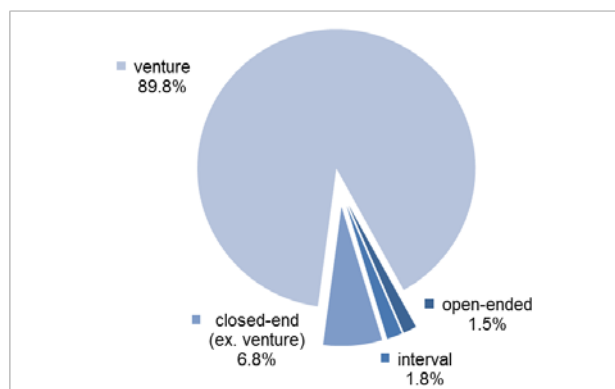
Number of funds in the sectors of closed-end non-diversified UIFs and CIFs (excluding venture ones) became less by one in each of them. Number of 'established' open-ended CIIs remained unchanged at the end of 2018 (19), although several funds remained in the process of liquidation.

Thus, in general, the quantitative growth of the CII industry in terms of formed funds at the end of 2018 accelerated, and corporate venture CII remained to be the engine of growth.

**Table 1. Dynamics of number of CII that have reached compliance with standards, by types and legal forms in 2018**

Date/Period	Total	UIF*							CIF*				
		O*	Os*	I*	Is*	CD*	CNN*	Cs*	Cq*	CV*	CNN*	Cq*	CV*
31.12.2017	1167	14	5	20	3	4	31	1	1	748	53	0	287
31.03.2018	1190	14	5	20	3	4	30	1	1	757	52	0	303
30.06.2018	1203	14	5	19	3	3	29	1	1	743	52	1	332
30.09.2018	1209	13	6	19	3	3	28	1	1	740	52	1	342
31.12.2018	1228	13	6	19	3	3	27	1	1	742	51	1	361
Q4 2018 Change	19	0	0	0	0	0	-1	0	0	2	-1	0	19
	1.6%	0.0%	0.0%	0.0%	0.0%	0.0%	-3.6%	0.0%	0.0%	0.3%	-1.9%	0.0%	5.6%
YTD 2018 Change (Annual)	61	-1	1	-1	0	-1	-4	0	0	-6	-2	1	74
	5.2%	-7.1%	20.0%	-5.0%	0.0%	-25.0%	-12.9%	0.0%	0.0%	-0.8%	-3.8%	-	25.8%

\* UIF - Unit Investment Fund, CIF - Corporate Investment Fund; O - open-ended diversified CII, Os - open-ended specialized, I - interval diversified, Is - interval specialized, CD - closed-end diversified, CNN - closed-end non-diversified non-venture, Cs - closed-end specialized, Cq - closed-end qualified, CV - closed-end non-diversified venture CII. Funds that have started liquidation process are included. Data on the number of formed CII as at 30.09.2016, 30.09.2017, 31.12.2017, 31.03.2018 and 30.09.2018 are updated (some venture CIFs, which were not considered previously, are added)

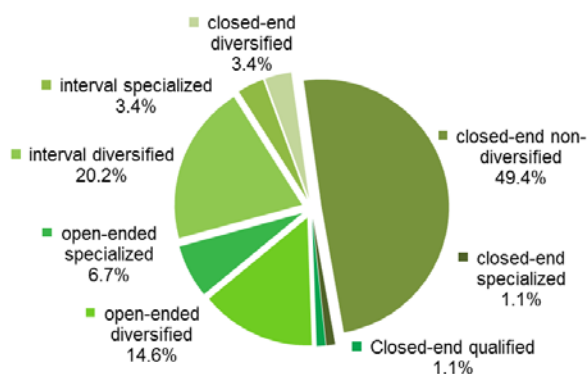

**Chart 2. CII that have reached compliance with the standards, by fund type, as at 31.12.2018**

As at December 31, 2018, number of CII that have not yet reached the norm for minimal asset value, among all funds under AMC management remained at the level of 48, ie 3.8% of all CII under management.

Totally 83 funds, according to UAIB, at the end of 2018 remained in the process of liquidation or had just started it, or 6.8% of all recognized and acting CIIs. Among them there were two open-ended, 5 interval and three closed-end diversified UIFs, three closed-end non-diversified UIFs and 8 of such CIFs, 60 venture UIFs and two CIFs.

Number of CII with public issue (placement) in the 4th quarter of 2018 decreased by two, to 89 - due to two closed-end non-diversified funds (Table 2).

Number of AMCs managing CII with public placement for the 4th quarter did not change and amounted to 37 at the end of December of 2018. They were 11 in the sector of open-ended CII (without taking into account AMCs of liquidated funds - 10).


**Chart 3. CII with public issue as 31.12.2018**
**Table 2. Dynamics of number of CII with public issue in 2018**

CII Type	Total	Open-ended			Interval			Closed-end				
		D*	S*	Total	D*	S*	Total	D*	N*	Q*	S*	Total
31.12.2017	95	14	5	19	19	3	22	3	49	1	1	54
31.03.2018	95	14	5	19	19	3	22	3	49	1	1	54
30.06.2018	92	14	5	19	18	3	21	3	47	1	1	52
30.09.2018	91	13	6	19	18	3	21	3	46	1	1	51
31.12.2018	89	13	6	19	18	3	21	3	44	1	1	49
Q4 2018 Change	-2	0	0	0	0	0	0	0	-2	0	0	-2
	-2.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-4.3%	0.0%	0.0%	-3.9%
YTD 2018 Change (Annual)	-6	-1	1	0	-1	0	-1	0	-5	0	0	-5
	-6.3%	-7.1%	20.0%	0.0%	-5.3%	0.0%	-4.5%	0.0%	-10.2%	-	0.0%	-9.3%

\* D - diversified, S - specialized, N - non-diversified, Q - qualified.

There were **33 diversified and specialized CII with public issue** which submitted reports for the 4th quarter and for the whole year 2018 (Table 3).

There were 9 equity funds at the end of December 2018, three of them were new ones if compared with the 3rd quarter - at the expense of funds which moved to this class from the class of mixed funds. There were 3 open-ended and 6 interval CII among such funds at the end of the year. All together they accounted for 27.3% of all diversified and specialized CII with public issue (Chart 4).

Bond funds in December were the same 3 funds as in September - two open-ended and one interval fund, which together accounted for 9.1% of all diversified and specialized CII with public issue.

There were 18 mixed funds remained at the end of 2018, but their composition changed due to the mutual transfer of several funds from/to the class of equity funds in the 4th quarter. As at 31.12.2018, 9 open-ended, 7 interval and 2 closed-end CII belonged to mixed funds. By the end of the year, the share of this class amounted to 54.5% of all diversified and specialized CII with public placement.

"Other funds", according to classification based on the structure of assets<sup>1</sup>, were in December the same 3 open-ended CII as in September.

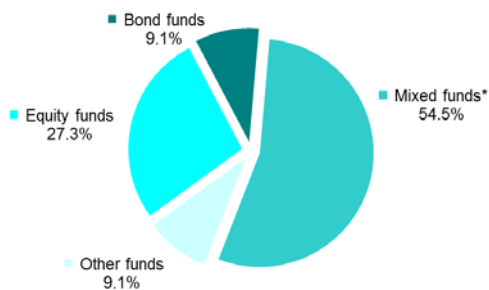


Chart 4. Diversified CII with public issue as at 31.12.2018

Table 3. Dynamics of diversified CII with public issue by fund types (according to asset structure) in 2018

Date/Period	Total	Equity funds	Bond funds	Mixed funds*	Money market funds	Other funds
31.12.2017	36	7	2	26	0	1
31.03.2018	34	8	2	22	0	2
30.06.2018	31	7	2	20	0	2
30.09.2018	32	8	3	18	0	3
31.12.2018	33	9	3	18	0	3
Q4 2018 Change	1	1	0	0	0	0
	3.1%	12.5%	0.0%	0.0%	-	0.0%
YTD 2018 Change (Annual)	-3	2	1	-8	0	2
	-8.3%	28.6%	50.0%	-30.8%	-	200.0%

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

## 2.2. Regional Breakdown of AMC and CII

In Kyiv and the metropolitan area in the 4th quarter of 2018, the total **number of operating AMCs** increased by 3 and at the end of December amounted to 210 (Chart 5). At that, four new AMCs were created here.

In TOP-5 regions by number of AMC, the number of AMC did not change in December 2018 compared to September (excluding Kyiv): in Dnipropetrovsk and Kharkiv regions there were 19 companies in each of them, in Lviv - 10, in Odessa - 7. In the rest of regions the number of companies during the fourth quarter increased by 1, to 31, that accounted for 10.5%. New regions with registered in them AMC were added by Chernihiv region. Market share of Kyiv and the metropolitan area by number of AMC increased for the quarter from 70.9% to almost 71%, and for the whole year 2018 - decreased from almost 73%.

**Number of CII under management in Kyiv** and its region in the fourth quarter of 2018 also increased from 900 to 923 funds (+2.6%), and in Ukraine as a whole - by 2.4%. Accordingly, the weight of Kyiv and the region grew for the fourth quarter by this indicator from 71.6% to 71.7% (Chart 6), but since the beginning of 2018 it fell (from 73.2%). The share of Dnipro, along with a slight increase of number of CII under management in the city and its region, against the backdrop of more active dynamics in Kyiv, somewhat declined within 7.3% (from the beginning of the year - from 7.5%). The weights of Kharkiv and Lviv fell, in conditions of unchanged number of CII here, to 6.1% and 5.2%, respectively. At the same time, increased number of funds in Ivano-Frankivsk region by 7.9% increased also the region's weight by this indicator from 3.0% to 3.2%. In the rest of regions, number of funds as a whole increased by two (their share remained within the 6.5%)

By number of venture CII under management the picture of the 4th quarter was the same: Kyiv has somewhat restored its position - its share has increased due to additional 18 funds from 70.9% to almost 71%. Also, the weight of the Dnipro increased (within 7.3%) as well as the weight of Ivano-Frankivsk (from 3.2% to 3.4%), while shares of Kharkiv and Lviv fell from 6.2% to 6.0% and from 6.1% to 5.9%, respectively. The share of regions outside TOP-5 by number of venture funds increased within 6.4%..

By number of CII under management (excluding venture ones), Kyiv slightly regained its weight in the fourth quarter (from 76.5% to 77.3%, Chart 5), due to additional 5 of such funds, but for the whole year 2018 its share fell (from almost 80%).

In distribution of **CII assets under management by regions** in the 4th quarter of 2018, the share of TOP-5

<sup>1</sup> See CII Ranking > *Collective Investment Institutions (CII) - by fund class* at the UAIB website: <http://www.uaib.com.ua>.

regions, unlike in the 3rd quarter, decreased insignificantly, including the share of Kyiv (from 81.4% to 80.7%), where the volume of assets under management grew, and the share of Kharkiv (from 4.6% to 4.1%), where the volume of assets under management decreased. At the same time, the weights of Dnipro and Lviv rose from 5.8% to 6.7% and from 3.5% to 3.8% (Chart 5). Weight of regions outside the TOP-5 by CIIs' assets under management in the fourth quarter of 2018 was almost unchanged (within 2.0%), while since the beginning of the year it has fallen insignificantly (from 2.1%) due to the weaker growth of the industry in these regions in terms of volume of assets under management.

Thus, in the 4th quarter of 2018, a certain "decentralization" of the industry continued, with increased

weights of regions outside the TOP-5 in terms of number of market participants and volume of assets under management, although the share of Kyiv in terms of number of players decreased slightly during this period.

Over the whole year 2018, the share of metropolitan area in terms of value of assets under management increased (from 80.2% at the beginning of the year) due to accelerated growth of assets under management in this area, compared to their overall volume in Ukraine, as well as the share of TOP-5 regions as a whole. At the same time, Kyiv and all the largest regions in terms of industry as a whole have quantitatively decreased their weight for the year.



Chart 5. Regional distribution of AMC number as at 31.12.2018

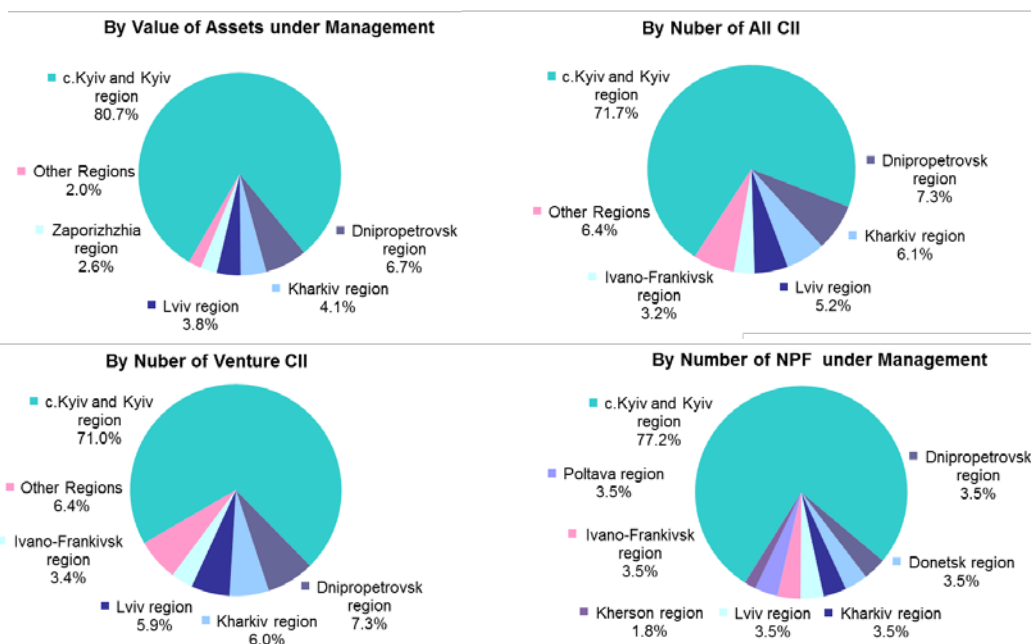


Chart 6. Regional distribution of CII by number and value of their assets under management as at 31.12.2018

**2.3. Assets and Net Asset Value of CIIs**

The aggregate total assets of all institutional investors under AMC management increased by 4.7% in the fourth quarter and as at December 31, 2018 amounted to **UAH 314,820.9 M**. The annual growth for the whole year 2018 amounted to 18.7% (after 13.5% in 2017).

**Assets of CII under management**, including those that have not yet reached the norm for minimum asset value, increased in the 4th quarter by more than 4.7%, and for the whole year - by 18.8%, to **UAH 313,327.2 M**.

As at December 31, 2018 the aggregate total assets of acting CII, which were under AMC management and reached the standards ('established' CII), amounted to **UAH 296.8 bln.** (Chart 7). In the fourth quarter, they added 1.1%, and for the full year 2018 - increased by 7.7% (after +14.5% in 2017). At that, the total assets of venture CII in the fourth quarter decreased somewhat (-1.4%) and at the end of 2018 amounted to **UAH 279,713.3 M**. (+4.8% for the year).

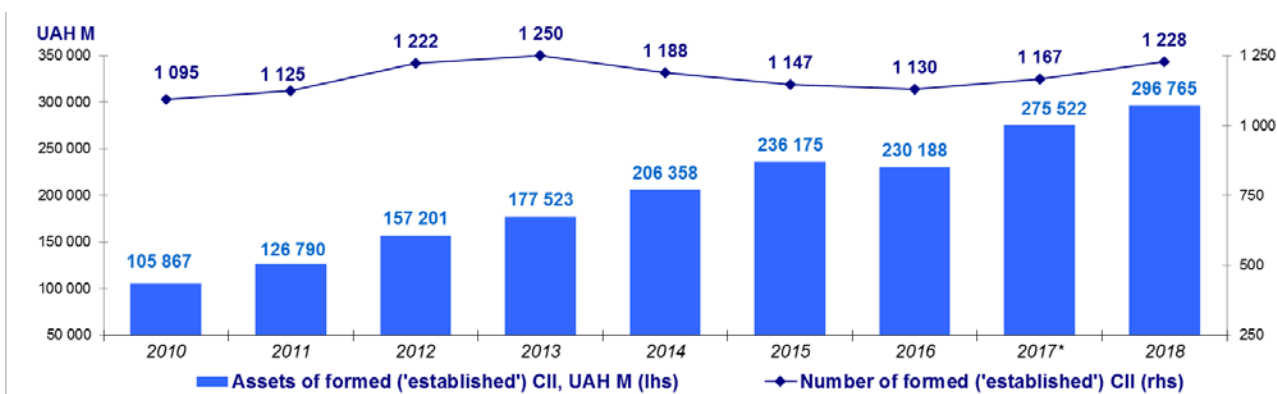


Chart 7. Dynamics of CII asset value and number of recognized CII in 2010-2018

**The ratio of CII assets to the GDP of Ukraine in 2018** decreased for the fourth consecutive year (from 2014) - to 8.3%; that took place in conditions of somewhat slowed but anyway outrunning growth of the nominal gross domestic product compared with growth of CIIs' assets (+19%, Chart 9).

**The ratio to the assets of Ukrainian banks**, on the contrary, continued to grow - up to 21.8%<sup>2</sup> – banks' assets grew at that time almost four times slower than CIIs' assets (+2%).

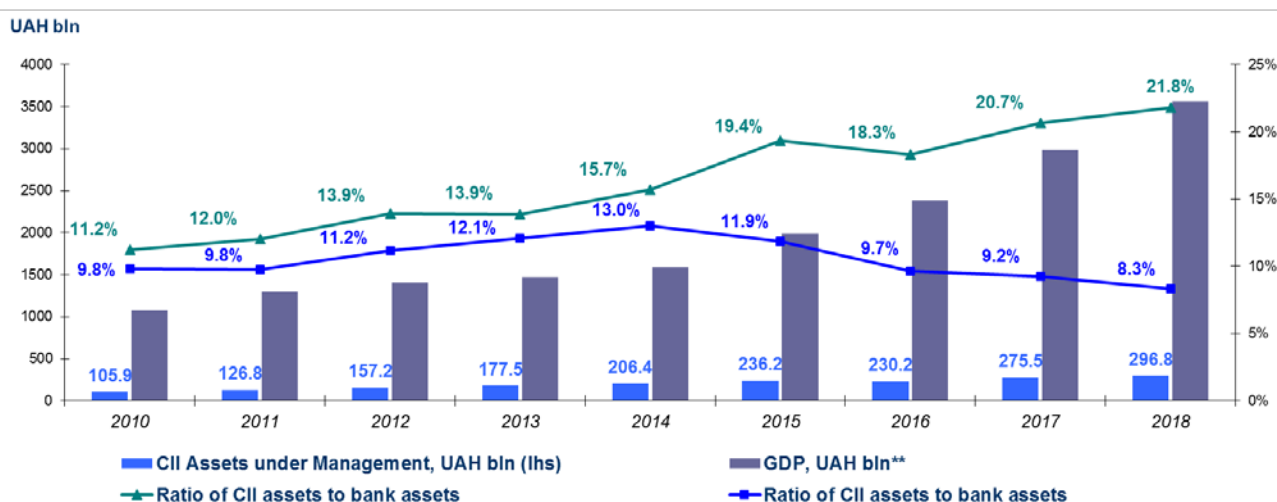


Chart 8. Dynamics of CII against the background of GDP and the banking sector of Ukraine in 2010-18

<sup>2</sup> According to the updated data on GDP and assets of banks as at December 31, 2015-2017. Sources: State Statistics Service of Ukraine: <http://ukrstat.gov.ua>.

National Bank of Ukraine: [https://bank.gov.ua/control/uk/publish/article?art\\_id=34661442](https://bank.gov.ua/control/uk/publish/article?art_id=34661442); Data on CII and calculations are made by UAIB.

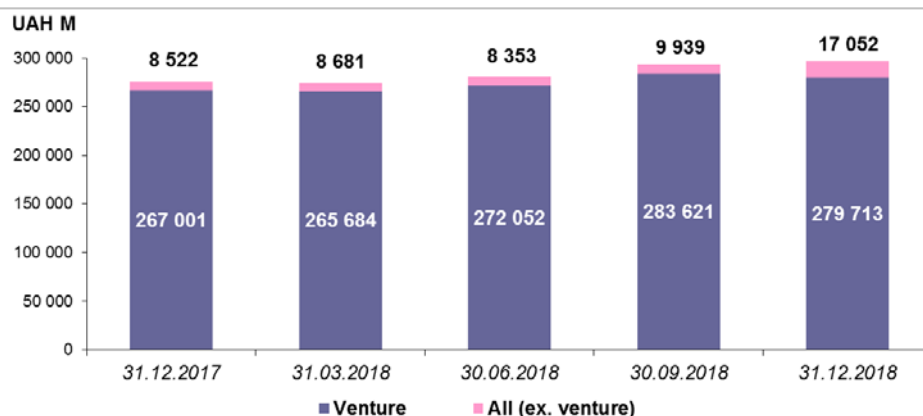


Chart 9. Dynamics of CII Asset Value 2018

During 2018, assets of recognized CII as a whole declined (in the first quarter), and then restored growth, which was facilitated, in particular, by an increase of the number of operating funds. Despite the decline of venture CII's assets at the end of 2018, the aggregate assets of recognized CII increased both during the fourth quarter and throughout 2018 due to the rapid increase of assets of *closed-end CII with private issue*, and also it was connected with a large project in one of the funds of this category.

*Assets of open-ended, interval and closed-end funds with public placement* in the 4th quarter decreased, but for the whole year 2018, the first and last ones showed a two-digit increase. This was facilitated by the rapid growth of Ukrainian stock indexes in 2018.

Due to more than doubled growth (+117.8%) of assets of closed-end CII with private placement, the aggregate value of CII assets (excluding venture funds) in

Q4 2018 grew by 71.6% and for the whole year it doubled (+100.1%). As at December 31, 2018, it amounted to **UAH 17 052.1 M.** (Chart 9).

**The net asset value of the formed CII, which reached the standards**, increased by 1.4% in the fourth quarter of 2018 (after +4.2% in Q3 2018). According to the results of the year 2018, it added 5.7% (after +18.5% in 2017), somewhat slowing the annual growth from 8.7% in the 3rd quarter. As at December 31, 2018, it amounted to **UAH 235 833.2 M.** (Table 4).

Growth slowed down due to some decrease of the number of closed-end funds with private and public issue and, despite of general increase of the number of venture CII, in conditions of closing of a number of funds in this sector. This was not fully offset by creation of new funds in the sector. Also, the uptrend was temporarily "broken" in the 2nd quarter by failing dynamics of the stock market (by the UX index).

Table 4. Dynamics of CII NAV by fund types in 2018, UAH M

Funds	31.12.2017	31.03.2018	30.06.2018	30.09.2018	31.12.2018	Q4 2018 change	YTD 2018 change (annual)
Open-ended	74.8	82.9	83.8	87.5	87.4	-0.1%	16.7%
Interval	78.4	80.8	80.5	84.5	81.6	-3.5%	4.1%
Closed-end (ex.venture)	8 103.4	8 146.2	7 937.2	8 047.6	15 226.1	89.2%	87.9%
with public issue	2 646.7	3 028.8	2 765.1	2 772.1	2 471.0	-10.9%	-6.6%
with private issue	5 456.8	5 117.5	5 172.1	5 275.5	12 755.2	141.8%	133.7%
<b>All (ex. venture)</b>	<b>8 256.6</b>	<b>8 309.9</b>	<b>8 101.5</b>	<b>8 219.6</b>	<b>15 395.0</b>	<b>87.3%</b>	<b>86.5%</b>
Venture	214 900.8	211 726.4	215 173.3	224 406.8	220 438.1	-1.8%	2.6%
<b>All</b>	<b>223 157.5</b>	<b>220 036.3</b>	<b>223 274.8</b>	<b>232 626.4</b>	<b>235 833.2</b>	<b>1.4%</b>	<b>5.7%</b>

\* Acting CII's that have reached the norms for minimal asset value (were recognized as valid), are managed by AMC and provided reports for the relevant period (as at the reporting date).

NAV of venture CII in the 4th quarter decreased by -1.8% (after +4.3% in Q3 2018), but increased by 2.6% for the whole year 2018 and at the end of the year amounted to UAH 220 438.1 M. Thus, it accounted for 93.5% of total net assets of all acting CII's (96.5% in 2017).

*Open-ended CII* (17 funds throughout the whole year 2018) suffered a decline of net assets for the 4th quarter by 0.3% (after +4.3% in Q3 2018), but for the whole year they added 16.6% (after +29.6% in 2017). As at December 31, 2018 they reached UAH 87.6 M. The



annual growth was facilitated by both the increase of stock indexes and by inflow of capital into funds from the beginning of 2018. The slight decline of sector's NAV at the end of the year was due to the net outflow that prevailed in the second half of the year and which was not fully compensated by funds through increased value of their investment portfolios, in conditions of a modest increase of stock indexes during this period.

More than twofold growth of NAV of *closed-end CII with private issue* in the fourth quarter and by results of the year 2018, increased the weight of this sector in net

assets of CII (excluding venture funds) to 98.9% at the end of December.

Sectors of open-ended and interval CII having moderately negative dynamics in the 4th quarter, against this background dropped to a weight of 0.5% each (Chart 10).

At that, closed-end funds with public issue, whose NAV declined by almost 11% in October-December, accounted for 16.1% of net assets of non-venture CII at the end of 2018 (after 33.7% in September).

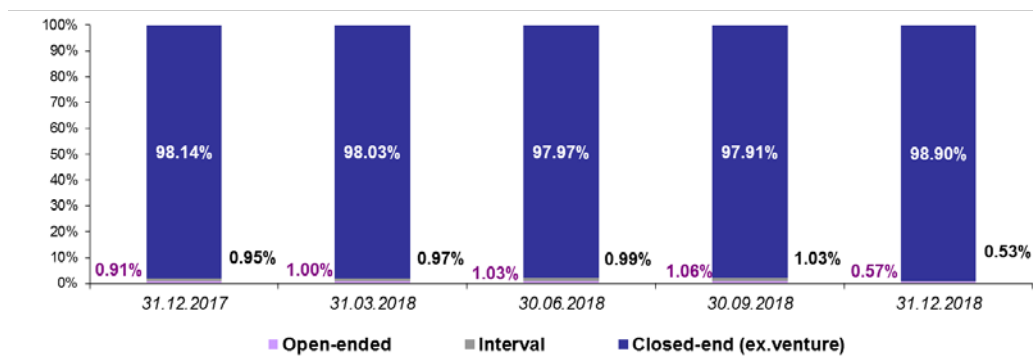


Chart 10. Dynamics of non-venture CII's NAV breakdown, by fund types in 2018

Venture CII, whose reduction of net assets in the 4th quarter of 2018 was only inferior to interval and closed-end funds with public issue, lost weight from 96.5% to 93.5% for the quarter.

The share of closed-end CII (excluding venture funds) sharply increased - from 3.8% to 6.5% (Chart 11) - due to one large fund with private issue.

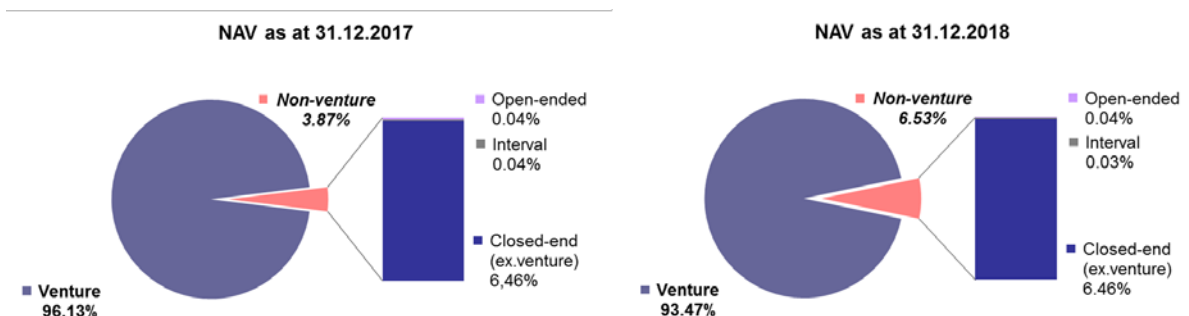


Chart 11. CII NAV Breakdown by fund types in 2018

## 2.4. Net Capital Flow in Open-Ended CII

In the 4th quarter of 2018, the movement of capital in Ukrainian open-ended CII for the second consecutive quarter was negative, at that, the net outflow of capital from open-ended funds with public issue was also characteristic during this time for foreign markets, in particular, in the EU.

Again, the first month of the quarter brought a net inflow, which then was changed by the outflow, which intensified in the last month (Chart 12). This dynamics correlated to a large extent with Ukrainian equity indices (UX and PFTS), which added 5% in October, and then began to slow down, to 2.5-3.6% in December.

Out of 17 open-ended CIIs reporting for the fourth quarter of 2018, 14 funds had an inflow or outflow of capital. *There were 10 funds with a net outflow* (in the 3rd quarter they were 12 out of 15), and their total net losses caused by exit of investors in the 4th quarter amounted to almost UAH 1 M. Almost half of this outflow was caused by the movement of capital in only one fund, which had a slight outflow in the 3rd quarter. Its losses exceeded the total net outflow from the sector for the 4th quarter. *There were 4 funds having a net inflow* (in the 3rd quarter - 3), and their aggregate additional revenues for the 4th quarter

amounted to UAH 0.7 M (after +UAH 0.3 M for 3 funds in Q3 2018).

During the fourth quarter of 2018, the number of funds with net inflow fluctuated from 5 in October-November to 2 in December, and number of funds with a net outflow changed from 4 in October to 10 in December.

Additional investments in open-ended funds during the fourth quarter were mainly made by local investors, although the number of retail resident investors decreased in the sector during this period.

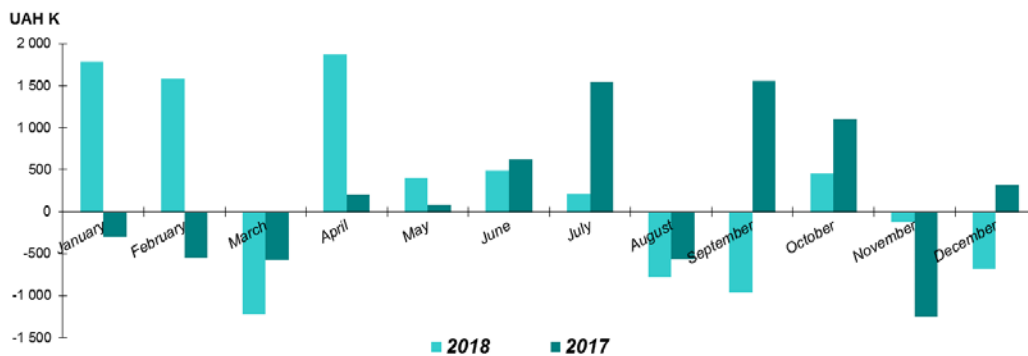


Chart 12. Monthly net flow of capital of open-ended CII in 2017-2018 (based on daily data)

**The total net outflow from open-ended CII in the fourth quarter declined to –UAH 0.3 M** (from –UAH 1.5 M in Q3 2018). A year ago, the dynamics of capital movement in the sector also significantly weakened (Chart 13).

**The annual capital movement in open-ended CII in 2018** remained positive for the second year in a row and even somewhat accelerated - up to UAH 3 M (from UAH 2.2 M in 2017), although it has decreased since the 3rd quarter (UAH 3.5 M, Chart 14).

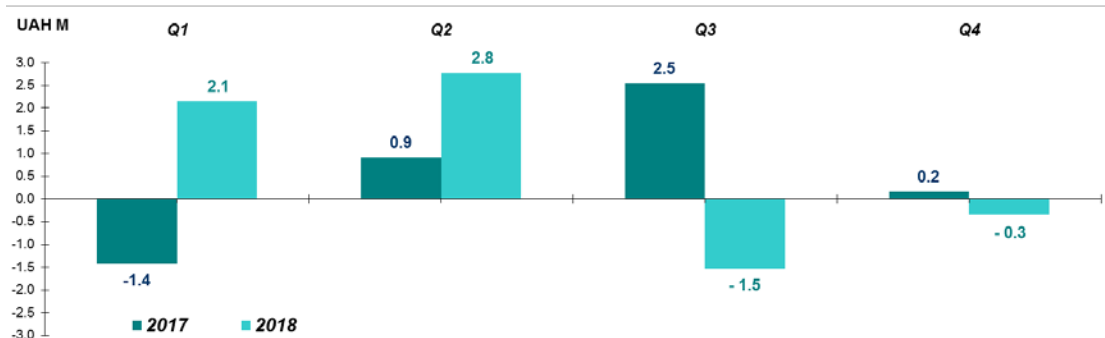


Chart 13. Net flow of capital of open-ended CII in 2017-2018, quarterly

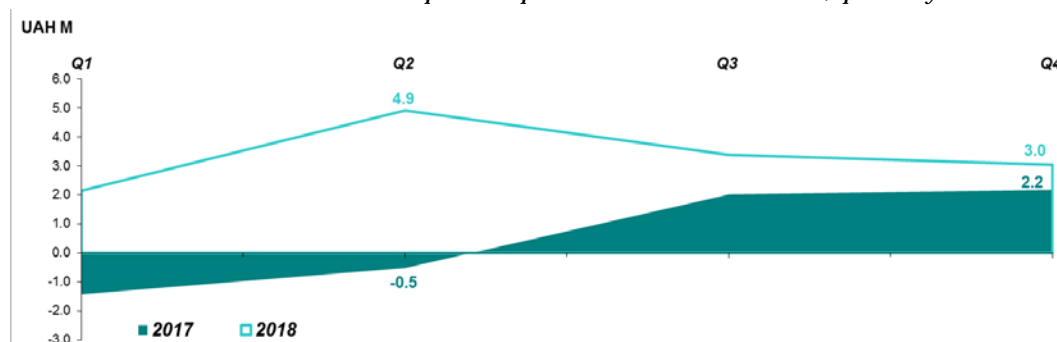


Chart 14. Net flow of capital of open-ended CII in 2017-2018, accumulated since the beginning of the year



At that time in the European Union, revenues continued to exceed the outflow as a whole only in "alternative funds", that ensured maintaining of the overall positive result of European industry of funds in terms of attracting funds from investors in October. However, already in October, UCITS<sup>3</sup>- bond funds suffered a significant outflow and, in November, the same happened with UCITS-funds of money market, and as a result of this the industry as a whole began to show negative results of capital flow.

Thus, according to EFAMA, net outflow of capital **from the EU industry of investment funds** for the 4th quarter of 2018 as a whole was negative: all funds as a whole lost totally **EUR 48 bln.** (after an inflow of EUR 36 bln. in Q3 2018), reducing the total net inflow for the year 2018 to EUR 245 bln. (in 2017 - EUR 948 bln.)<sup>4</sup>.

**The net outflow of EUR 71 bln. from UCITS for the fourth quarter of 2018** took place after the inflow of EUR 2 bln. in Q3 2018, and as a result of that, these funds succeeded to attract additionally only EUR 117 bln. compared to EUR 740 bln. in 2017.

Outsiders of the 3rd quarter of 2018, *money market funds*, were the **most popular among UCITS for investors** in the 4th quarter of 2018 (EUR 23 bln.) - mainly due to the achievements of October, when they attracted an additional EUR 33 bln., after the outflow of EUR 13 bln. for July-September. The annual result of these funds was negative (- EUR 11 bln.).

*Equity funds* had the second best result in this category, but it was negative (-EUR 6 bln. in the 4th quarter, after EUR 20 bln. of net inflow in Q3 2018). For the full year 2018, these funds, by contrast, received net inflows of EUR 109 bln.

*Mixed funds* lost EUR 17 bln. as a result of net outflow in the fourth quarter (after +EUR 11 bln. in the Q3 2018), and in 2018 they got EUR 78 bln. of net inflows.

*Bond funds* were that class of UCITS which suffered the most outflow in the fourth quarter (-EUR 46 bln., after -EUR 6 bln. in Q3 2018), which eventually led to net losses also for the whole year 2018 (- EUR 23 bln.).

**Net inflow to AIF<sup>5</sup> in the 4th quarter of 2018** weakened to **EUR 23 bln.** (from EUR 34 bln. in Q3 2018). In total, for the year 2018, these funds received EUR 128 bln. of net revenues (in 2017 - EUR 211 bln.).

*Mixed funds* were **the most popular ones from AIF among investors** in the 4th quarter of 2018 (+EUR 10 bln., almost the same as in Q3 2018). During the year, they attracted a net inflow of EUR 32 bln. And "other" funds<sup>6</sup> with EUR 96 bln. led in 2018 by annual inflow (after EUR 158 bln. in 2017), their net sales fell to EUR 8 bln. in the 4th quarter (from EUR 30 bln. in Q3 2018).

Quarterly revenues to AIF of *real estate* remained virtually stable at the level of EUR 7 bln., and for the year they rose to EUR 34 bln. (from EUR 28 bln. in 2017).

AIFs of *equities* in the fourth quarter achieved a positive movement of capital (+EUR 4 bln., after -EUR 3 bln. in Q3 2018), but for the entire year 2018 they lost EUR 10 bln. (after +EUR 27 bln. in 2017).

So, bond funds remained outsiders by attracting funds in the 4th quarter of 2018, both for UCITS and AIF investors, due to the expected growth of the USA Federal Reserve's rates during this period, which was previously planned for the end of the year (but did not take place). Instead, the demand for alternative equity funds in this period increased, although uncertainty negatively affected more traditional funds (UCITS) of this class.

**The aggregate NAV of the fund industry in the EU** fell by 5.5% in the fourth quarter and as at 31.12.2018 amounted to EUR 15,157 bln. (-3% for the year). At that, **net assets** of UCITS declined by 6.9% in the fourth quarter, and by 4.6% for the year 2018, to EUR 9,284 bln.

<sup>3</sup> In this context, long-term UCITS funds are all UCITS classes, excluding money market funds. UCITS (Undertakings for Collective Investment in Transferable Securities) are enterprises for collective (joint) investing in negotiable securities (which are in circulation in regulated markets); they are open-ended funds with public issue (offer) and stringent requirements to 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 related legislation of the EU.

<sup>4</sup> According to the available data for 28 countries whose associations are members of EFAMA (24 EU Member States, including Poland (former EFAMA member), as

well as Liechtenstein, Norway, Switzerland and Turkey) - see. EFAMA Quarterly Statistical Report Q4 2018 at website <http://www.efama.org>.

<sup>5</sup> AIF (Alternative Investment Funds) are Alternative Investment Funds; actually include all other non-UCITS regulated funds. The companies that manage such funds are regulated by the AIFMD Directive (Directive 2011/61 / EU of 8 June 2011).

<sup>6</sup> This category of AIF includes equity, bond and mixed funds in Ireland due to the lack of data on their distribution across these sectors.

**2.5. CII Investors**

According to the results of Q4 2018, the largest investors of CII remained **resident legal entities**: they owned 62.3% of net assets of all CII (after 63.6% in the 3rd quarter and 66.5% at the beginning of the year, Chart 15). The decline of their weight in NAV lasted for the second year in a row, although their aggregate investments in absolute terms once again increased the most among all categories of investors (but in relative terms they increased the least - by 11.1%). At that, by CII sectors by type of funds, *in venture CII* the aggregate value of investments of local enterprises in the 4th quarter decreased slightly, but for the whole year 2018 it grew (+11.8%), and their share increased from 64.7% in the 3rd quarter to 65.6% by the end of 2018 (but declined from 67.8% at the beginning of the year).

*In open-ended CII*, aggregate investments of residential enterprises both in Q4 2018 and in the year 2018 as a whole increased insignificantly, and their weight in NAV increased for the quarter from 9.0% to 9.4% (but dropped from 10.8% in 2017).

*In interval CII*, assets of domestic corporate investors fell significantly for the fourth quarter, and as a consequence of this dropped also for the whole year 2018, which led to decreasing of their weight from 16.5% at the beginning of the year and in the 3rd quarter to 12.8% at the end of Q4 2018.

*In closed-end non-venture funds*, aggregate investments of resident enterprises also decreased in the 4th quarter of 2018, the same as for the whole year; this was accompanied by the withdrawal from the market of a number of these funds.

*In funds with private issue (venture excluded)*, assets of these investors declined the most and their weight fell from 30.7% in early 2018 and 30.2% in September to 10.8% in December. And *in the sector with public placement*, the share of Ukrainian legal entities' assets increased both by quarterly and by annual terms (from 36.6% at the beginning of the year and 37.0% in the 3rd quarter to 39.9% in Q4 2018).

**Individual resident investors** continued to increase their assets in all sectors of CII in the 4th quarter, except for in the interval ones (although here they also increased over the whole year 2018). *In open-ended funds*, aggregate investments of these investors rose again the most among all categories of depositors in absolute terms, although in relative terms they outstripped only non-resident enterprises, that allowed them to increase their weight in the sector for the 4th quarter from 77.0% to 77.8% (and from 75.9% at the beginning of the year).

Their weight *in interval CII* in the 4th quarter and in the year 2018 increased almost exclusively due to the rapid decline of enterprises-residents' role in the sector and by the end of the year it reached 85.3%.

*In closed-end non-venture funds*, their share increased significantly in the 4th quarter and for the year due to the active dynamics in funds *with private issue* - up to 76.7% as a whole and up to 88.9% in the specified subsector.

*In venture CII*, aggregate assets and the share of this category of investors in 2018 grew steadily: their weight increased from 9.4% at the beginning of the year and 10.6% in the 3rd quarter to 10.9% at the end of Q4 2018.

In total, the weight of Ukrainian citizens and other retail investors- residents *in all CIIs* by aggregate NAV at the end of 2018 reached 15.2% (after 12.1% in September).

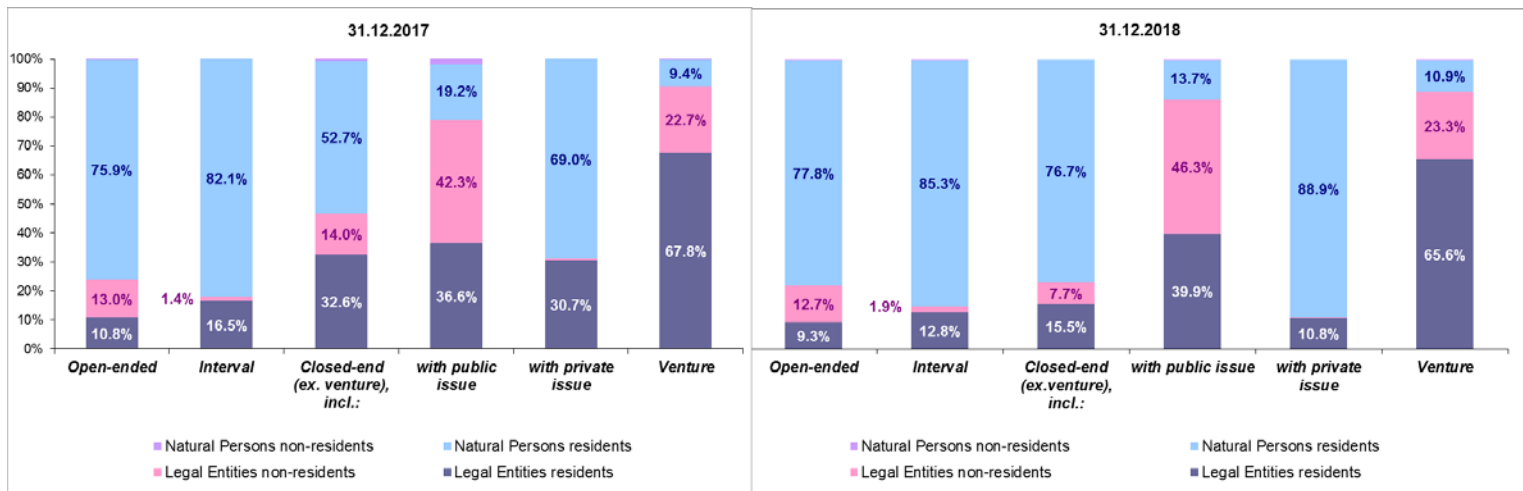


Chart 15. Investments in CII by category of investors at the beginning and at the end of 2018, share in NAV<sup>7</sup>

<sup>7</sup> Excluding funds' securities on bearer which are in circulation

The aggregate value of **foreign investors'** investments in CII in the 4th quarter of 2018 decreased in all sectors, but for the whole year it increased in all of them, besides closed-end non-venture ones. At the same time, assets of **individuals - non-residents** increased insignificantly for a quarter in open-ended and venture funds.

Almost 98% of foreign investments continued to be held by **companies -non-residents**, whose assets in open-ended funds declined significantly in the 4th quarter, and their weight fell from 13.8% to 12.7% (from 13.1% at the beginning of the year). Together with retail foreign investors of these CII, the share of **non-residents** as at December 31, 2018 in open-ended funds decreased for Q4 2018 - to almost 13%, in venture funds - to 23.5%, and **in all CII** as a whole - to 22.5%. But for the year it almost has not changed.

**Number of CII investors** as at 31.12.2018 amounted to **259 548** (table 5), 98.6% of which were individuals-residents of Ukraine, 96.3% – participants of interval funds<sup>8</sup>, 0.6% – of open-ended funds, 1.5% – of venture ones.

**In open-ended funds** as at the end of 2018 there were 1,650 participants (-77, or -4.5% for the 4th quarter, -3.6% for the year). In particular, number of all retail investors-residents decreased by 78 (-4.6% for the 4th quarter, -3.8% for the year) to 1,622.

**In interval CII and in closed-end CII with public issue**, dynamics of this category of investors determined reduction of the number of participants in them in the 4th quarter (-16 resident-physical persons in each of these sectors). Over the whole year, number of investors in these sectors decreased by 0.1% and 4.9%, respectively. At the end of 2018, **interval CII** had 249,859 participants (including 249,822 of local retail investors), **closed-end CII with public issue** had 3,922 persons (3,735 respectively).

Also, in the 4th quarter of 2018, the number of participants of **venture CII** decreased to 3,857 (-98, or -2.5%), but for the year it increased by 2.3%. .

Instead, **closed-end CIIs with private issue (excluding venture funds)** were the only one sector where the number of investors increased in the 4th quarter (+11, or +4.4%), and by the results of the whole year 2018 they were the most dynamic in terms of the number of investors (+9.2%).

Thus, the annual dynamics of investors' participation in CII in the 4th quarter and in the year 2018 as a whole was diverse by sectors of funds, **while the total number of investors decreased by 0.1%** for both the quarter and for the year (after +13.8% in 2017).

Table 5. Investors of CII by categories, number and share of the total number as at 31.12.2018

Funds	Legal Entities				Natural Persons				TOTAL
	residents		non-residents		residents		non-residents		
Open-ended	19	1.15%	8	0.48%	1 622	98.30%	1	0.06%	1 650
Interval	18	0.01%	1	0.00%	249 822	99.99%	18	0.01%	249 859
Closed-end (ex. venture), incl.:	356	8.51%	24	0.57%	3 794	90.72%	8	0.19%	4 182
with public issue	164	4.18%	15	0.38%	3 735	95.23%	8	0.20%	3 922
with private issue	192	73.85%	9	3.46%	59	22.69%	0	0.00%	260
<b>All (ex. venture)</b>	<b>393</b>	<b>0.15%</b>	<b>33</b>	<b>0.01%</b>	<b>255 238</b>	<b>99.82%</b>	<b>27</b>	<b>0.01%</b>	<b>255 691</b>
Venture	2 890	74.93%	386	10.01%	572	14.83%	9	0.23%	3 857
<b>All</b>	<b>3 283</b>	<b>1.26%</b>	<b>419</b>	<b>0.16%</b>	<b>255 810</b>	<b>98.56%</b>	<b>36</b>	<b>0.01%</b>	<b>259 548</b>

In terms of contributions of various categories of investors, decrease of the total number of CIIs' participants in the 4th quarter of 2018 was largely due to **individuals-residents**, the number of which for this period decreased as a whole by 103 (-0.04%), and for the year 2018 - by 0.13% (-322 persons altogether, although in **closed-end non-venture CII with private placement** and in

**venture funds** they became more by 7 and by 77, respectively).

Their number decreased the most for the second consecutive year, both in absolute and in relative terms, in **closed-end CII with public issue** (-188, or -4.8%). .

**Legal persons-residents** in CII in the 4th quarter of 2018 were at the second place by decreasing of number (-94, -2.8%). During the whole year, they became

<sup>8</sup> This is due to the activity of several funds, which have been reorganized from the former mutual funds into interval CII and have relatively big number of small participants.

less as a whole by 24 (-0.7%), but in closed-end CII their annual dynamics was positive (+12 in venture CII and +12 in other *closed-end CII with private placement*). In *venture funds*, as at 31.12.2018, this category was accounted for almost 75% of all investors in this sector.

**Foreign corporate investors** as a whole quantitatively reduced their presence in CII in the 4th quarter of 2018, namely, in *venture funds*, by 6 (-1.4%, similar to Q3 2018). For the year their number became less by 5 in this sector, and in all CII as a whole - only by two (-0.5%). This happened due to increased number of foreign-owned companies -investors in *open-ended funds and in closed-end CII with private issue (excluding venture funds)* from the beginning of 2018 - by 3 in each sector (+60% for open-ended and +50% for closed-end funds, respectively).

## 2.6. CII Asset Structure

**Securities** increased their weight in the structure of assets in 2018 in CII sectors with *public issue*, in particular in *open-ended* ones, and continued this trend in *interval* funds for the second consecutive year.

In the 4th quarter, the share of stock market's instruments in assets increased, in addition to *interval CII*, also in *closed-end funds with public placement* - at the expense of state bonds (OVDP) and, to some extent, of equities, while in *open-ended CII* it decreased slightly during this period – again at the expense of OVDP - with the simultaneous increase of assets' liquidity due to assets in banks, whose volume and share in these CII increased (Table 6).

At that, **the aggregate value** of securities increased for the quarter only in *closed-end funds with public placement*.

Finally, in *venture CII*, the numerical weight of these participants in the 4th quarter increased from 9.9% to 10.0%, in the context of a more dramatic reduction of the number of enterprises-residents, however, since the beginning of 2018, it decreased (from 10.4%), against the backdrop of positive dynamics of other categories of investors' participation in these CII.

In *open-ended CII*, the share of non-resident enterprises in the total number of investors in the 4th quarter increased insignificantly within the range of 0.5% (0.3% at the beginning of the year).

As a whole, **companies and individuals - non-residents** in all CII retained a small quantitative share, which remained within 0.2% throughout the year 2018.

The following key changes took place in the fourth quarter for certain types of securities in CII assets:

increase of aggregate investments **in state bonds** and of their share in assets of *closed-end CII with public placement and venture CII*; reduction of aggregate investments in these instruments and of their weight in assets of *open-ended CII*;

reduction of **equities'** share in assets of all *closed-end CII with private placement (including venture ones)* and decrease of their aggregate value in all sectors, excluding closed-end funds with public placement;

reduction of **corporate bonds'** package and weight in assets of *closed-end CII* - both with *public and with private placement*.

Table 6. Changes in the structure of aggregate CII portfolios by fund types in Q4 2018

Asset Type / CII Type / Quarterly Change	Open-ended		Interval		Closed-end- with public issue		Closed-end- with private issue		Venture	
	p.p.	%	p.p.	%	p.p.	%	p.p.	%	p.p.	%
<b>Other assets (Incl. R and CR*)</b>	-0.70	-14.9%	-1.06	-19.8%	-0.37	-0.5%	21.50	35.8%	1.09	1.3%
Real estate	-	-	-	-	0.06	89.0%	-0.11	-39.6%	-0.22	-6.2%
<b>Cash and bank deposits</b>	1.57	6.7%	-0.57	-6.0%	-2.97	-66.6%	-7.38	-47.0%	0.00	0.4%
Bank metals	0.23	24.7%	-	-	0.01	12.7%	-	-	0.00	-100.0%
<b>State bonds (OVDP)</b>	-1.17	-4.6%	1.41	3.5%	3.88	50.9%	-0.75	-57.1%	0.02	27.4%
<b>Equities</b>	0.07	0.2%	0.20	0.5%	1.20	15.0%	-10.56	-59.6%	-0.39	-8.8%
<b>Corporate bonds</b>	0.00	0.7%	0.02	3.8%	-1.53	-67.7%	-2.29	-54.3%	-0.30	-9.7%
<b>Promissory notes</b>	-	-	-	-	-0.28	-32.9%	-0.41	-55.1%	-0.40	-10.8%
Mortgages	-	-	-	-	-	-	-	-	0.00	-81.8%
Other securities	-	-	-	-	-	-	-	-	0.18	53.8%
<b>Securities</b>	-1.10	-1.5%	1.63	1.9%	3.27	17.5%	-14.02	-58.4%	-0.88	-7.6%

In closed-end funds (excluding venture ones), in the fourth quarter the weight of cash fell also, at that in funds with public placement this occurred with the relatively largest reduction of exactly this class of assets, while assets in banks increased in funds with private placement, but their growth was significantly lower than growth of "other assets".

In 2018, the aggregate value of CIIs' assets in securities as a whole decreased - at the expense of funds with private placement, while in all sectors with public placement (open-ended, interval, closed-end ones) it continued to grow (although investments of open-ended CII in them decreased in the 4th quarter).

As at the end of 2018, stock instruments traditionally were the key component of open-ended and interval CIIs' assets (70% and nearly 87%, respectively), with the lion's share in them of equities and state bonds (in particular, OVDP, Chart 16).

Assets of venture CII in stock market instruments both in Q4 2018 and for the full year 2018 decreased, unlike in 2017. This was mainly due to a decrease of aggregate investments in equities and promissory notes. The weight of the first ones fell from 7.9% at the beginning of the year and 4.5% in the 3rd quarter to 4.1% in December; the weight of last ones - from 4.6% and 3.7%, respectively, to 3.3%.

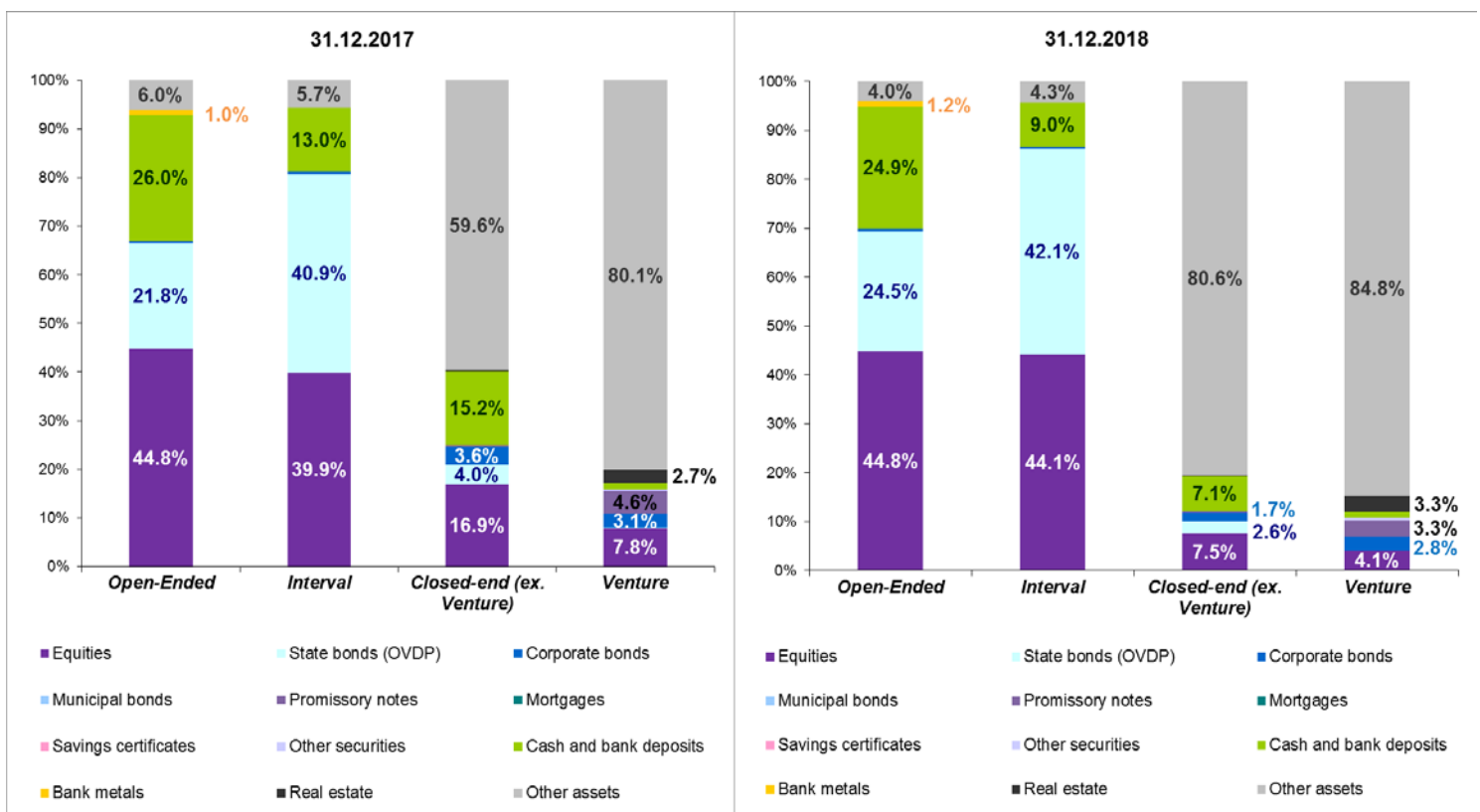


Chart 16. CII asset structure by fund types at the beginning and at the end of 2018

In closed-end CII with public placement, the weight of securities increased from 21.7% at the beginning of the year 2018 and from 18.7% in the 3rd quarter to almost 22% as at the end of the year, which was due to an increase of total investments of these funds in equities and OVDP. At that, in assets of all closed-end CII as a whole (excluding venture ones) with both types of placement, the share of stock instruments for the year became half less (from 24.9% to 12.2%), which was caused by the rapid growth of "other" assets by funds with private placement, that was also accompanied by some decrease in their

cumulative investments in equities and bonds in the 4th quarter and during the year.

State bonds (OVDP), along with maintaining attractive rates and strengthening of hryvnia in the year 2018, remained a popular instrument for asset managers of open-ended, interval and closed-end CII with public issue. The weight of OVDP in the first two specified CII sectors increased for the year, while in closed-end non-venture CII it fell due to the sharp increase of "other assets" in the 4th quarter, which exceeded the growth of these funds' investments in OVDP.

In *open-ended* funds, the share of state bonds increased from 21.8% to 24.5% for the year 2018 (and fell from 25.7% in the 3rd quarter); in *interval ones* it increased from 40.9% at the beginning of the year and 40.7% in the 3rd quarter to 42.1%.

**Equities** in 2018, the same as before, continued to have the largest share among stock instruments in all sectors of CII, excluding *interval ones*, where OVDP were dominant. In *open-ended funds*, where the annual growth of equities portfolio provided almost half of the sector's growth of assets, their weight almost did not change both for the year as a whole, and for the 4th quarter in particular (it slightly increased within 44.8%).

**Cash and bank deposits** in CIIs' current and deposit accounts in banks during 2018 decreased their weight in assets of all sectors by type of funds, although their aggregate value as a whole for the year and for the 4th quarter increased in *open-ended CII and closed-end CII with private placement (excluding venture funds)*. They also remained the second largest constituent in assets of *open-ended CII* (24.9%, after 26.0% at the beginning of the year and 25.7% in Q3 2018). Reduction of the share of money in assets of this sector on an annual basis was conditioned by twice more active growth of aggregate investments of these funds in equities and OVDP. In other sectors of funds by types of CII, the annual weight of money fell to 9.0% in *interval CII*, to 7.1% in *closed-end ones* (totally for both types of placement) and to 1.2% in *venture funds*.

**"Other" assets** remained the largest component of venture funds' assets and of assets of other CII of *closed-end type*, both with public and private placement<sup>9</sup>. Their unprecedented growth in *closed-end CII* was due mainly to the project activity of funds with private placement, where they increased by three times in the 4th quarter, and by 4 times for the full year 2018, to more than UAH 11 bln.

Their weight increased from 53.2% in January and from 60.0% in September to 81.5% in December.

In *venture CII* their share increased from 80.1% in early 2018 and 83.7% in the 3rd quarter to 84.8% in Q4 2018. Compared to 2017, the "other" assets of this sector grew less in 2018 (+UAH 32 bln., after +UAH 39 bln.), at that they even somewhat decreased in the fourth quarter, which may be due to the closure of a number of venture CII, and by the end of 2018 they reached UAH 237 bln.

The total value of *venture funds' real estate portfolio* in 2018 had the second largest increase, although in the 4th quarter it also significantly decreased. Its share in assets of these CII, as a result, increased from 2.7% to 3.3% for the year and for the quarter it decreased from 3.5%.

**Portfolio of securities and derivatives of all CII in total** in 2018 decreased by UAH 10.4 bln. (-24.2%), including in the 4th quarter - by UAH 3 bln. (-8.6%). As at 31.12.2018 it cost **UAH 32,216.6 M.** (Table 7). If in 2017 *equities* were the engine of growth, then in 2018 their portfolio was the most abbreviated in absolute terms, although *portfolio of mortgages* lost the most (-40.6% vs. -97%, respectively). In the fourth quarter, portfolio of *promissory notes* (-12.1%) declined at the highest rate, while *equities* fell by almost 10% during this period, and *corporate bonds* dropped by 11%. Over the year, the volume of the latter fell by only 1%, which was the third best annual result after *state bonds (OVDP) and derivatives*, whose packages in the consolidated CII portfolio increased in 2018 by 54% and 71%, respectively. *Equities* lost weight in the consolidated CII financial portfolio from 50.4% in early 2018 and 40.2% in Q3 2018 to 39.6% in December. *Promissory notes* kept the second position with 20.6% (after 29.7% in September and 27.4% a year ago). *Corporate bonds* grew from 19.0% to 24.9% for the year (but lost in the fourth quarter – from 25.6%).

Table 7. Portfolio of CIIs' securities and derivatives, as at 31.12.2018

Security Type	Aggregate value of securities in CIIs' portfolios, UAH M		2018 change		Share in the aggregate portfolio of CIIs' securities	
	31.12.2017	31.12.2018	UAH M	%	31.12.2017	31.12.2018
Equities	21 493	12 768	-8 726	-40.6%	50.4%	39.6%
Promissory notes	11 663	9 205	-2 457	-21.1%	27.4%	28.6%
Corporate bonds	8 109	8 017	-92	-1.1%	19.0%	24.9%
Derivatives	857	1 469	612	71.4%	2.0%	4.6%
State bonds (incl. OVDP)	491	757	265	54.0%	1.2%	2.3%
Mortgages	7	0	-7	-96.9%	0.0%	0.0%
<b>Total</b>	<b>42 621</b>	<b>32 217</b>	<b>-10 404</b>	<b>-24.4%</b>	<b>100.0%</b>	<b>100.0%</b>

<sup>9</sup> "Other assets" include corporate rights in other forms than securities, as well as receivables, including loans to companies, where CIIs own a stake in the capital (for venture funds)



**Portfolio of CII, excluding venture funds**, declined by 1.8% in 2018, due to a negative dynamics during April-December, in particular, in the fourth quarter it lost 4.7% and at the end of the year was worth **UAH 2,228.9 M.** (Table 8).

*Equities* remained unchallenged leaders in the consolidated portfolio of non-venture CII as at the end of 2018, with the share of 61.5% in it, although it decreased both for the fourth quarter and for the full year (from 67.3% in early January and 64.1% in September). For the fourth quarter, they decreased the most among various instruments in aggregate value of these CIIs' financial portfolio in absolute terms, and for the whole year they did it also in relative terms (-10.3%). However, *corporate*

*bonds and promissory notes* decreased twice as fast for the quarter (by -16.3% each of them), while for the year the first ones decreased only by 6.8% in aggregate value, and the latter once doubled from their low base. The share of *corporate bonds* decreased from 13.9% at the beginning of 2018 and 15.0% in September to 13.2% in December, and of *promissory notes* - doubled for the year to 2.9%.

*OVDPs* were the only instrument where aggregate investments of the consolidated portfolio of CII, excluding venture funds, grew both in Q4 2018 and for the whole year 2018 (+21.7% and +26.4%, respectively). Thus their weight increased significantly - from 17.4% at the beginning of the year and 17.6% in September to 22.4% in December.

Table 8. Portfolio of securities and derivatives of CII, excluding venture funds, as at 31.12.2018

Security Type	Aggregate value of securities in CIIs' portfolios, UAH M		2018 change		Share in the aggregate portfolio of CIIs' securities	
	31.12.2017	31.12.2018	UAH M	%	31.12.2017	31.12.2018
Equities	1 500	1 345	-154	-10.3%	67.3%	61.5%
State bonds (incl. OVDP)	388	490	102	26.4%	17.4%	22.4%
Corporate bonds	310	289	-21	-6.8%	13.9%	13.2%
Promissory notes	32	64	32	101.3%	1.4%	2.9%
<b>Total</b>	<b>2 229</b>	<b>2 188</b>	<b>-41</b>	<b>-1.8%</b>	<b>100.0%</b>	<b>100.0%</b>

**Diversified CII**, unlike in the 3rd quarter of 2018, in the 4<sup>th</sup> quarter suffered a reduction of their portfolio of securities - by 10.4%. However, this did not prevent them from maintaining the upward dynamics by the results of the year (+8.2%), which was due to double-digit growth in Q1 2018. As at December 31, 2018, this portfolio cost **UAH 74.7 M.** (Table 9).

Reduction of portfolio in the 4th quarter by 96% was caused by a fall of the aggregate value of investments of these funds in *equities* (-13.7%), although from the

beginning of the year it has increased by 5.5%. At that, the share of equities in the stock portfolio of diversified funds decreased both for the quarter and for the year - from 71.5% and 72.4% to 69.7%. This was partly due to a much more active growth of these CIIs' investments in *state bonds* (+17.4% in 2018, -1.6% in the fourth quarter). The share of OVDP in the portfolio, respectively, increased from 27.5% at the beginning of the year and 27.2% in the 3rd quarter to almost 30% in Q4 2018.

Table 9. Portfolio of securities and derivatives of diversified CII, as at 31.12.2018

Security Type	Aggregate value of securities in CIIs' portfolios, UAH M		2018 change		Share in the aggregate portfolio of CIIs' securities	
	31.12.2017	31.12.2018	UAH M	%	31.12.2017	31.12.2018
Equities	49	52	3	5.5%	71.5%	69.7%
State bonds (incl. OVDP)	19	22	3	17.4%	27.5%	29.9%
Corporate bonds	1	0	0	-51.0%	1.0%	0.4%
<b>Total</b>	<b>69</b>	<b>75</b>	<b>6</b>	<b>8.2%</b>	<b>100.0%</b>	<b>100.0%</b>

## **2.7. Rates of Return: CIIs and Other Investment Tools**

Although index of the Ukrainian equities in 2018 was subject to limitations in calculations, as well as the stock exchange, which calculated it (UX), but it remained

the key guideline for CII, which invested mainly in stock market instruments, in particular, in equities. Therefore, by the end of the year, profitability of the funds, together

with the UX index, decreased, but remained positive for most sectors of CII, including **open-ended funds** and **equity funds** (diversified and specialized CII with public placement). The annual yield of the first ones – as well as of the index - reduced by three times, of the second ones – decreased twice as compared with 2017. However, **equity funds in 2018 remained the leaders by annual yield among all CII sectors (+14.1%), and open-ended funds - among sectors by type of CII (+9.0%)**. Among different investment areas, both sectors gave way by annual rates of returns only to equity indices and to banks' fixed-term (annual) deposits in hryvnia (Chart 17). Rates of return of *annual deposits in hryvnia* continued to fall during 2018 (from 16.9% to 15.0%), in the context of lowering inflation and strengthening of hryvnia's exchange rate in the first half of the year, against the backdrop of an increase of the NBU's discount rate. *Euro deposits* which were leaders of 2017, in 2018 were loss-making (-4.4%, after +24.0%), as well as *deposits in dollar of the USA* (-0.2%, after +10.4%) and *in gold* (-1.5% after +21.5%).

**In the 4th quarter of 2018**, the growth of the Ukrainian stock index lasted almost until mid-December, only temporarily being influenced by corrections, but the sharp increase of volatility at the end of the year led to a decline of rates of return of a number of equity funds and finished with negative quarterly result of this class of funds, as well as of sectors of interval and closed-end CII (with both types of placement). Rates for *bank deposits in hryvnia* increased by the end of the year, but for the fourth quarter these deposits provided an average stable +3.5%. The appreciation of hryvnia against foreign currencies during this period caused losses for *deposits in US dollars and in euro in hryvnia terms* - respectively -2.0% and -5.1% (after +9.1% and +8.8% in Q3 2018, respectively). The increase of the price of *gold* on international markets provided the slightly higher quarterly return on bank deposits in it – +3.7% (after +3.4% in the 3rd quarter). *Residential real estate in Kyiv* in October-December of 2018 continued to rise in price, but at a slower pace (+0.4%, after +8.0% in the third quarter in hryvnia terms).

Among all categories of CII and, in particular, among diversified and specialized funds with public issue by asset classes, mixed funds became leaders by rates of return in the 4th quarter (+3.4%, after +1.5% in Q3 2018). Among them, 11 out of 18 funds had positive indicators (61%, after 78% in the 3rd quarter), one such fund was more profitable than the PFTS index, and 4 more profitable than UX index; two funds covered losses from inflation during this period, three were more profitable than term annual deposits in hryvnia, 6 - more than "gold" deposits, and more than 90% of these funds were more successful than deposits in foreign currency<sup>10</sup>. **Equity funds**, which led in the previous quarter, in Q4 2018 brought average -2.9% (after +7.3%). At that, three of such funds out of 9 provided an increase of the value of their participants' investments for the quarter (33%, after 75% in Q3 2018). Among them, one fund was more profitable than the PFTS index, and, together with another one, more profitable than the UX index. **"Other" diversified and specialized funds with public issue** showed a reduced yield at the level of +1.4% in the 4th quarter (after +3.6%), and **bond funds** suffered fall of the average quarterly yield by more than 4 times - up to +1.3%.

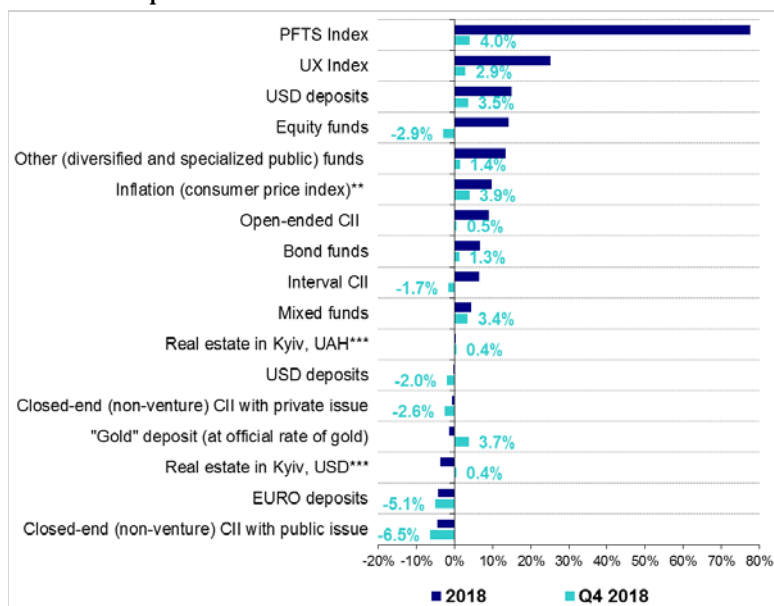


Chart 17. Rates of return – CII, deposits, equity indexes and inflation rates in Q4 2018 and in 2018.<sup>11</sup>

<sup>10</sup> In order to compare adequately the returns of different investment areas (asset types), it is necessary to take into account liquidity of CII, in particular, ones of the open-ended type, which allow to withdraw from investments on any working day without loss of profit, in contrast to fixed-term bank deposits, which, predominantly, presuppose recalculation of interest income on early repayment of funds at deposit rate on current accounts (which is close to zero). At the same time, the calculated return of CII does not take into account possible commissions and other costs when entering /leaving the funds. Also, taxation of investment profits when leaving the fund and taxation of interest on deposits is not taken into account.

<sup>11</sup> CII's rates of return are calculated based on the reporting data for Q4 2018 for 17 open-ended, 15 interval, 66 closed-end CII (including 35 with public issue and 31 with private issue), and according to the reporting data for the previous quarters. Inflation is calculated on the basis of data from the State Statistics Service of Ukraine. Rates of return for real estate in USD is calculated as the average of data on value of residential real estate in Kyiv from portals: <http://www.domik.net>, <http://100realty.ua>, <http://realt.ua>; in UAH - according to the portal: <http://100realty.ua>.

Among CII by fund types, **open-ended funds** again became the leaders in terms of return on investment in the 4th quarter of 2018; they brought an average **+0.5%** (after +3.7% in the 3rd quarter). At that *11 funds out of 17 in the sector increased the value of their certificates for the quarter (65%, after 94% in the 3rd quarter)*. Two open-ended funds in the 4th quarter were more profitable than "gold" deposits, 4 - than deposits in hryvnia, 6 - outstripped the UX index and all, except one, provided better results than deposits in dollars and euros. Indicators of individual funds of this type varied from -14.4% to +3.8%, that is, they were in the significantly narrowed range compared to the 3rd quarter, however, without taking into account the two extreme values, the average yield in the sector was higher (+1.3%).

**Interval funds** in the 4th quarter came back to the negative zone of rates of return (**-1.7%**, after +3.7%). The range of indicators of individual funds in this sector has slightly expanded and dropped compared to the 3rd

quarter (from -10.8% to +5.8%). 6 out of 15 funds *increased the value of certificates* (40%, after 87% in the 3rd quarter).

**Closed-end CII with private placement (excluding venture funds)** in the 4th quarter of 2018 had an average **loss of 2.6%** (after +1.8% in Q3 2018). The range of quarterly results of these funds sharply expanded in both directions from zero (from -39.1% to +65.9%), at *that 3 out of the 31 funds showed increased value of their securities* (9%, after 55% in the 3rd quarter).

**Closed-end CII with public placement** with average of **-6.5%** (after +0.4% in Q3 2018), were again outsiders by rates of return in the fourth quarter, although without taking into account the extreme values, their result was considerably more moderate (-1.4% for 31 fund). The range of indicators for various funds in the sector remained broad and shifted downwards, and 14 funds out of 35 of these CII *provided an increase of investments* (40%, after 55% in the 3rd quarter).

### 3. Summary

Year 2018 and, in particular, the 4th quarter, became a period of acceleration of both quantitative and value growth for the Ukrainian asset management industry, although the withdrawal from the market of a number of collective investment institutions and asset management companies continued.

**The key trends of the asset management industry in Ukraine in the 4th quarter of 2018 and in the whole year 2018 were:**

- Return of *number of AMC* to the level that was at the beginning of the year - due to growth in the 4th quarter by 4 companies;
- Further growth of the *number of registered CIIs and of the number of formed ('established') CIIs* - mainly due to venture CIFs;
- Slowing of the growth of the *aggregate value of assets and NAV of the industry* for the year and for the quarter, with positive quarterly dynamics only in the sector of closed-end CII with private placement (excluding venture funds), but with positive annual dynamics in all sectors, excluding interval CII; at that:
- Increasing of the *NAV of open-ended CII* for the third year in a row, despite a slight decline in Q4 2018 - mainly due to the upward trend of portfolio investments, as well as to net capital inflows to the sector during the first half of the year;
- Further minor quarterly decrease of the *number of investors in CII* - mainly due to closed-end CII with public issue, that was also recorded by the results of the year;;
- Further increase of *aggregate funds of Ukrainian citizens* in CII, as well as of their weight in all sectors of funds, excluding closed-end CII with public issue;
- Lowering of the *weight of enterprises-residents in the NAV of all CIIs* for the second year in a row, against the background of a weaker their increase compared to investments of other categories of investors;
- Reduction of *aggregate funds of foreign investors* in the 4th quarter in all sectors of CII, and for the whole year - their growth in all of them, excluding closed-end non-venture funds; at the same time - reducing of their weight for the quarter in all sectors, but almost unchanged weight by the results of the year;
- Further decrease of the *value of securities* in assets of all CII as a whole and in particular in closed-end funds (including venture ones), while its grows in open-ended CII for the quarter, and in interval ones



- also for the whole year; along with this - growth of the *aggregate value* of investments in stock instruments for the quarter in closed-end funds with public placement, and for the year - in all sectors with public placement (open-ended, interval, closed-end CII);

- Decrease of quarterly and annual *returns*, with predominantly positive average indicators in different CII sectors by type of funds, types of placement and asset classes.

In conditions of strengthening of volatility on the stock markets at the end of 2018, funds' rates of return reduced, but in a number of sectors it remained positive, and the results of the year showed an increase of value of investment in almost all CII sectors by type and class of

funds. At that, the net inflow to open-ended investment funds in Ukraine on an annualized basis even accelerated, although Q4 2018 showed a slowdown of outflow compared to Q3 2018, that correlated with European trends at this time.

Thus, despite all the challenges, net assets of both open-ended funds and of all CII as a whole increased for the year 2018. In the sector of venture CII, the trend continued to increase the share and number of corporate funds, unlike of the unit ones, reflecting the demand from investors.

This provided both further quantitative growth of this sector, and along with it, of the industry of funds as a whole, and preservation of steady upward dynamics of assets under management.

---

**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 Asset Management Industry Reviews](#)
- [Ranking: AMC Rankings; CII Rankings \(by fund types and by fund classes\)](#)

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