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### 1. The Stock Market

During Q2 2012, mainly pessimistic moods dominated in the global stock markets. The reason for that was slowing down of the global economy on the whole and amplifying financial problems in the EU, which were enhancing macroeconomic instability.

At first, upward dynamics prevailed in the markets, as the US were giving signals of economic strengthening after FRS financial injections; corporate financial reports in all sectors exceeded the expectations, and the GDP forecast promised growth acceleration up to 2.3% in 2012. In the meanwhile, Europe maintained moderate trend. In April, Germany witnessed an unexpected growth of the investor confidence index up to an almost two-year top level, and in May the European Commission announced a probable growth of the key economy of the region by 0.7% in 2012 and by 1.7% in 2013.

However, as the quarter continued, downtrends started to dominate. Among the key drivers behind that were the news on the decline of the British economy in Q1; weakening of Euro that in May reached its two-year minimum as a result of a powerful response to the budgetary cuts in the Euro zone states, and lowering the Euro zone GDP forecast for 2012 by 0.4%. Leading rating agencies were adding reasons for fears, as one by one they downgraded by several notches the rating of Spain, as well as of several dozens of Italian and Spanish banks. The unemployment level in Spain jumped up to 24.4% – the eighteen-year maximum, at that, this number encompassed over 30% unemployed in the Euro zone, with over 50% of them being young people.

The equity markets were also experiencing the pressure of the news from the greatest Asian economies. China, for the first time since 2005, lowered planned GDP growth forecast below 8% (to 7.5%) under conditions of a weakening global demand and a continuous decline in foreign investments. China Central Bank for the third time since November 2011 lowered the reserve requirements on the loans, and the Bank of Japan expanded the government support program by \$124 bln. and kept the key refinancing rate unchanged (0-0.1%).

May turned out to be the worst month for the majority of markets since September last year, and for some – for the last four years, with Russian and Brazilian equities dropping by more than 20% from the previous maximums, thus entering the bear market. The US economy could no longer power investors' optimism due to their housing market decline, weakening GDP growth, and the lowest for the two years business activity level.

By quarter end, markets started to recover and make up for the drawdown due to a certain rally of demand and anticipation of a further action on economic growth revitalization on the part of China. The US FRS announced an expansion of the program of support by \$267 bln. until year end.

In the meanwhile, most of expert evaluations coincided in stating that central banks were reaching the end of their resources for economic growth stimulation.

During Q2, the major equity indexes demonstrated between -17.5% - 10.7% in Russia and Japan, which had been growth leaders in Q1, and up to -1.7% in China. The equities in the US, despite a more optimistic current situation and near-term prospects of the country's economy, also incurred losses – between 2.5% and 3.3%. Polish market proved to be the most stable one (-0.2%) (Table 1, Chart 1).

In Ukraine, in Q2 "blue chips" demonstrated a drawdown by 32%, with only the downfall of Q3 2011 by 37% that had been provoked by the August events in the US that had global consequences, remaining greater than that.



Table 1. National markets' stock indexes in Q1-Q2 2012\*

Indexes	31.03.2012	30.06.2012	Q1 2012 change	Q2 2012 change	YTD 2012 change
WSE WIG 20 (Poland)	2 286.53	2 282.22	6.62%	-0.19%	6.42%
SHANGHAI SE COMPOSITE (China)	2 262.79	2 225.43	2.88%	-1.65%	1.18%
DJIA (USA)	13 212.04	12 880.09	8.14%	-2.51%	5.42%
S&P 500 (USA)	1 408.47	1 362.16	12.00%	-3.29%	8.31%
FTSE 100 (Great Britain)	5 768.45	5 571.15	3.52%	-3.42%	-0.02%
HANG SENG (Hong Kong)	20 555.58	19 441.46	11.51%	-5.42%	5.46%
CAC 40 (France)	3 423.81	3 196.65	8.35%	-6.63%	1.17%
DAX (Germany)	6 946.83	6 416.28	17.78%	-7.64%	8.78%
MICEX (Russia)	1 517.34	1 387.52	8.21%	-8.56%	-1.05%
NIKKEI 225 (Japan)	10 083.56	9 006.78	19.26%	-10.68%	6.52%
RTS (Russia)	1 637.73	1 350.51	18.52%	-17.54%	-2.27%
PFTS (Ukraine)	531.64	362.31	-0.52%	-31.85%	-32.21%
UX (Ukraine)	1 421.93	967.00	-2.53%	-31.99%	-33.72%

\* Based on the data of exchanges and Bloomberg Agency

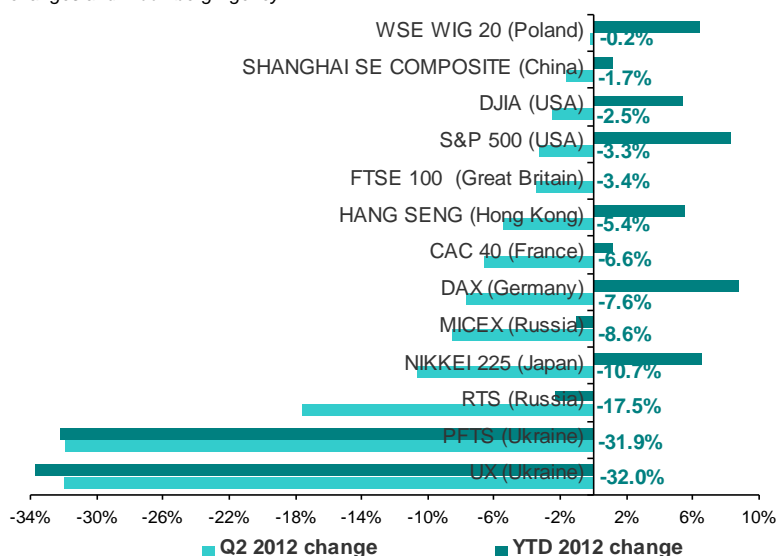


Chart 1. National markets' stock indexes' dynamics in Q1-Q2 2012

Having started plummeting in the beginning of May, the national stock market renewed its historical low by going 42% down in the first decade of June since quarter beginning according to the Ukrainian Exchange Index (UX). Afterwards, equities started moving in opposite direction and by the end of June partially restored their value. All in all, Ukrainian indexes repeated the trend of well-developed markets, though their upward movement was significantly slower.

In the meanwhile, investor activity in the stock exchanges weakened, particularly from the viewpoint of the value of the deals made: the number of equity transactions on UX compared to Q1 dropped by 7.8%, their value was 27.0% less and comprised UAH 2 442.29M. At that, an aggregate trading volume decreased by 29.5% (to UAH 2 718.07M), as the amount of transactions in corporate bonds on the exchange declined almost twice. However, the number of transactions in CII securities here grew by 76.9%, and their value – by 18.6%, which substantially exceeded Q1 indicators when a decline had been observed.

At that time, on the PFTS the market of corporate, as well as municipal, securities also narrowed, though the volume of OVDP trades almost twice exceeded the preceding quarter's one.

All the above was accompanied by an active and in some aspects positive dynamics of the foreign economic activity of Ukraine in Q2. On the one hand, an outrunning growth of goods' import resulted in increase of the deficit of the current accounts of the payment balance by more than 70% compared to Q1 – up to USD 2.31M<sup>1</sup>. Furthermore, it was in June that the greatest payments under internal and external

<sup>1</sup> Based on preliminary NBU data.



debts of Ukraine were to be made (USD 1.88 bln. and UAH 3.65 bln. respectively). On the other hand, the financial account 2.5 times increased its debit balance – up to USD 1.75 bln., among other, due to an inflow of “other capital” (corporate loans and deposits) in amount USD 2.09 bln. (after an outflow of USD 1.54 bln. In Q1), as well as of direct investments in amount USD 0.64 bln.

## 2. The Number of AMC and CII

In Q2 2012, the dynamics of the number of asset management market participants changed to downward one – the number of companies, according to the UAIB data, as of 30.06.2012 decreased from 344 to 340 (after +3 AMC in Q1) (Chart 2). At that, mainly Kyiv companies (5 out of 6) exited the market. Therefore, the industry scale by this parameter rolled back to the level of 2010 year end.

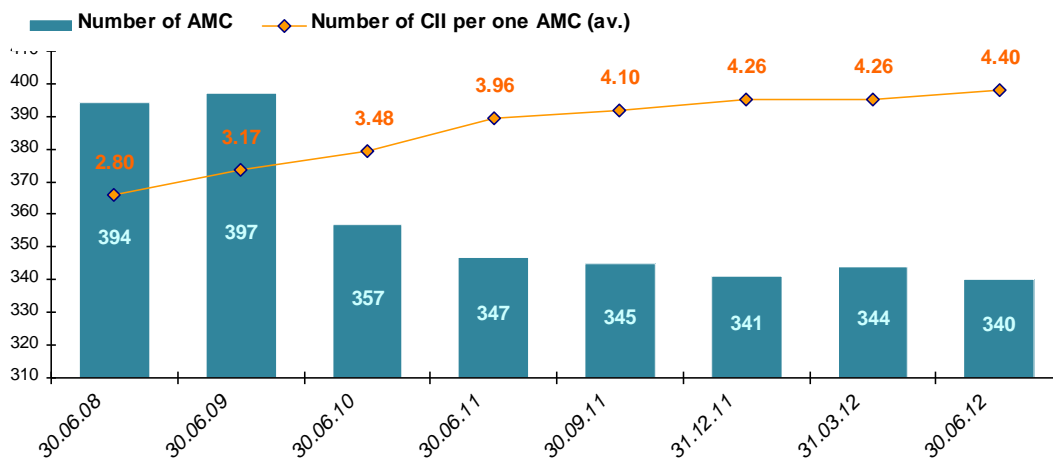


Chart 2. Dynamics of the number of AMC and CII per one AMC in Q2 2008-2012

The number of registered CII continued to grow in Q2, at that, at a faster pace (+33 funds versus +13 during Q1 2012). As of 30.06.2012, there were 1497 CII. That strengthened the trend towards concentration of the number of funds under AMC management, as there were on average 4.40 funds per one company now (after unchanged 4.26 since year beginning).

In Q2 2012, according to the UAIB data, 35 CII reached compliance with the standard on minimal asset volume, and a number of other funds were liquidated. Finally, the number of operating CII grew by 21 funds over the quarter (after 33 in Q1) and as of 30.06.2012 reached 1179 (Table 2 ).

Table 2 . Dynamics of the number of CII that reached compliance with the standards, by types and legal forms of funds

	Total	UIF					CIF		
		O*	*	CD*	CNN*	CV*	*	CNN*	CV*
31.12.2011	1125	43	40	10	35	772	2	128	95
31.03.2012	1158	42	38	13	39	791	2	124	109
30.06.2012	1179	42	38	13	41	805	2	119	119
Q2 2012 change	1.81%	0.00%	0.00%	0.00%	5.13%	1.77%	0.00%	-4.03%	9.17%
Change since the beginning of 2012	4.80%	-2.33%	-5.00%	30.00%	17.14%	4.27%	0.00%	-7.03%	25.26%

\*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

Growth continued in the sectors of venture UIF and CIF (+14 and +10 funds, respectively, after +19 and +14 in the preceding quarter), at that, compliance with the standards was reached by 18 and 12 CII. The number of closed-end non-diversified UIF also increased (+2 funds), as five such CII were recognized. The rest of the sectors did not undergo quantitative changes, with exception of closed-end non-diversified CIF (-5 funds).

Among open-ended CII two funds remained at liquidation stage. The probability of a further decrease of the number of funds in the sector also continued to grow along with another increase of the



standard for the minimal CII asset volume at the start of Q2. Specifically, during April – June the number of open-ended funds with the asset value below standard went up from 14 to 16.

All in all, among all registered CII under AMC management as of 30.06.2012 there were 118 funds that were yet to reach compliance with the standard (after 111 in Q1).

Based on the data calculated by the UAIB on the ground of the changes to the Ranking methodology for asset management companies and collective investment institutions (unit and corporate investment funds) based on their performance results<sup>2</sup>, which introduced a classification of diversified CII with public issues based on the asset structure, the number of such CII in Q2 grew from 75 to 77 funds, which corresponded to the level of the beginning of 2012. At that, most of CII were in the group of “other funds” (such that did not fit into the classes of equity, bond or hybrid funds), whose number increased from 55 to 63. The number of equity funds decreased more than twice (4 versus 9), and only one fund, just as of the two preceding quarters’ end, was attributed to bond funds (Table 2b).

Table 2b. Dynamics of the number of diversified CII with public issue, by the classes of funds\*

	Total	Equity funds	Bond funds	Mixed funds**	Other funds
31.12.2011	77	9	1	8	59
31.03.2012	75	9	1	10	55
30.06.2012	77	4	1	9	63

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

Kyiv region in Q2 2012, just as before, played the key role in the dynamics of the market participants’ number – this time a declining one (Chart 3). As the number of AMC decreased by 5 – up to 239 here, the share of the region-leader narrowed from 70.9% to 70.3%.



Chart 3. Regional distribution of AMC number as of 30.06.2012

The regional distribution of CII in Q2 also confirmed a decrease of the share of Kyiv and Kyiv Region below the level of the beginning of 2012 (from 71.8% to 70.3%). The respective shares of other regions grew, with the regions with the greatest presence of AMC, as well as Zaporizhzhya Region, remaining the leaders by CII number (Chart 4).

<sup>2</sup> [http://www.uaib.com.ua/rankings\\_byclass.html](http://www.uaib.com.ua/rankings_byclass.html)

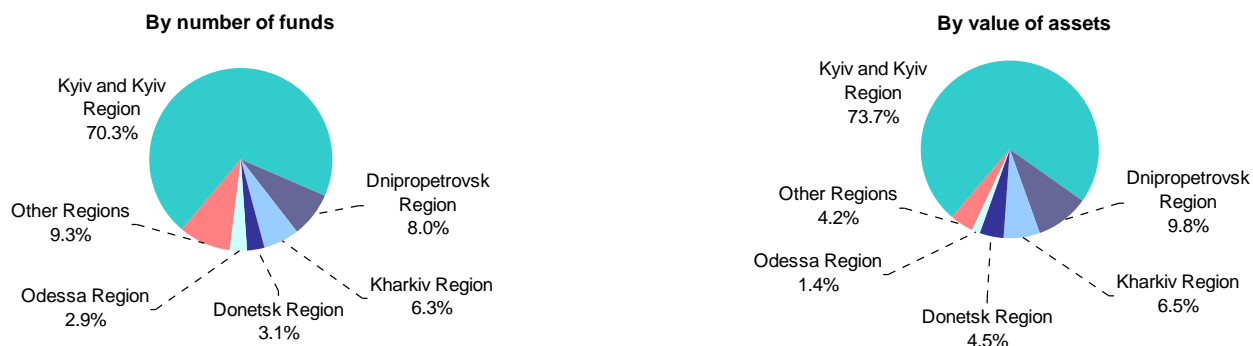


Chart 4. Regional distribution of CII by the number of CII and the value of their assets under management, as of 30.06.2012

Contrary to a decrease of Kyiv and Kyiv Region share by the number of market participants, the share of the capital within *the CII assets under management by regions* in Q2 expanded from 72.4% to 73.7%, thereby confirming the greater size of funds established in Kyiv compared to other regions of Ukraine. All in all, among the rest of the regions-leaders by CII assets, a relatively noticeable was an increase in the share of Kharkiv Region only – from 4.4% to 4.5%.

#### **4. The Asset and the Net Asset Value of CII. The Net Inflow/Outflow of Open-Ended CII**

In Q2 2012, the collective investment institutions' market continued to grow, following the main trend of the preceding quarter: as stock indexes were falling and, accordingly decline was observed in the sectors of open-ended and interval CII, the sector of closed-end funds, in particular, venture ones, was demonstrating growth. That was also promoted by an increase in the number of recognized venture CII and reports filed by them, whilst other closed-end funds filed somewhat fewer reports (151 CII during Q2 compared to 152 during Q1). The presence of open-ended and interval CII, just as the number of these funds, remained unchanged.

As of 30.06.2012, an aggregate total value of CII assets reached UAH 136 945.39M, and the quarterly growth exceeded Q1 result – +UAH 5 786.58M, +4.4%, including venture CII – +UAH 5 975.80M, +4.9% up to UAH 127 075.43M. (Chart 5).

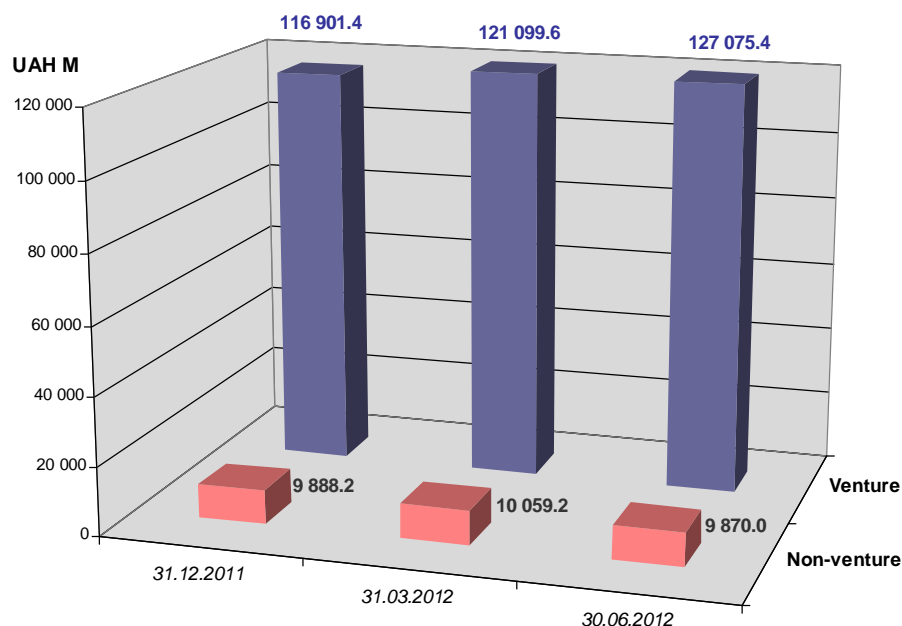


Chart 5. Dynamics of the asset value of CII in Q1-Q2 2012



Notable was the **net asset** growth in Q2, which outpaced the total asset growth thus demonstrating positive dynamics of funds' liabilities. That, once again, was due to venture CII that as of the quarter end held UAH 111 495.19M in aggregate and accelerated NAV growth five times (+UAH 6 566.65M, +6.3%). Finally, an aggregate NAV of all CII as of 30.06.2012 reached UAH 120 734.34M (+UAH 6 433.04M, +5.6%).

The net assets of the sectors of open-ended and interval CII continued to decrease, and downward movement in Q2 was also demonstrated by the sector of closed-end non-venture funds.

The open-ended funds' NAV losses were almost equal to Q1 indicator – UAH 20.37M (-9.9%). As a result, the sector's net asset value dropped to UAH 186.03M – its three years' low – despite the number of operating open-ended CII during that time grew from 30 to 40.

The NAV of interval funds went down to UAH 168.53M, its decline pace accelerating four times (-UAH 10.74M, -6.0%).

The closed-end CII lost UAH 102.50M in aggregate (-1.1%) (after +361.78, +4.2% in Q1) and as of 30.06.2012 held net assets in amount UAH 8 884.58M (Table 3).

Table 3. Dynamics of CII NAV, by the types of funds in Q1-Q2 2012, UAH M

Funds	31.12.2011	31.03.2012	30.06.2012	Q2 2012 change	YTD 2012 change
Open-ended	227.01	206.40	186.03	-9.87%	-18.05%
Interval	181.85	179.27	168.53	-5.99%	-7.32%
Closed-end (excluding venture)	8 625.30	8 987.08	8 884.58	-1.14%	3.01%
All funds (excluding venture)	9 034.16	9 372.76	9 239.14	-1.43%	2.27%
Venture	103 656.91	104 928.54	111 495.19	6.26%	7.56%
<b>All funds (venture included)</b>	<b>112 691.07</b>	<b>114 301.30</b>	<b>120 734.34</b>	<b>5.63%</b>	<b>7.14%</b>

An outflow of capital from open-ended CII during Q2 2012 was decreasing each month, and in June, when the stock market experienced a rapid drawdown, was minimal (Chart 6, Table 4). At that, between 29% and 98% of the outflow was formed by one fund, and the quarterly outflow from two funds comprised almost 50% of the aggregate outflow from the sector. Therefore, investors' exit and downward stock market dynamics were equally important drivers of the net asset value decrease in open-ended funds in Q2.

In the meanwhile, during the quarter, between 3 and 8 CII of that type were getting additional capital inflow from investors, having attracted UAH 1.07M in aggregate.

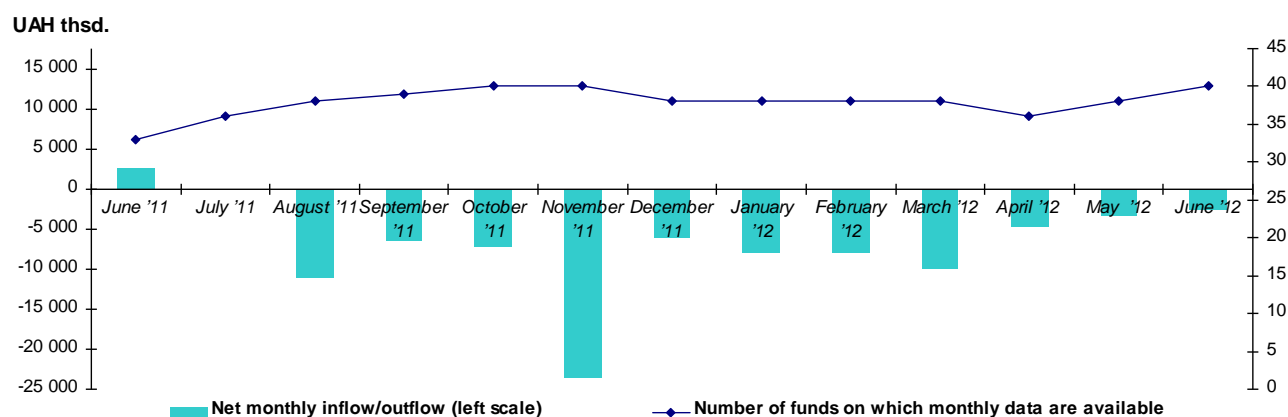


Chart 6. Monthly net inflow/ outflow of capital in open-ended CII in June 2011-2012 (based on daily data)





Table 4. Monthly net inflow/ outflow of capital in open-ended CII in June 2011-2012

Month	Net monthly inflow/outflow	Number of funds on which monthly data are available
June '11	2 504.86	33
July '11	-43.50	36
August '11	-11 040.64	38
September '11	-6 343.15	39
October '11	-7 217.03	40
November '11	-23 654.55	40
December '11	-6 137.97	38
January '12	-7 987.14	38
February '12	-7 951.99	38
March '12	-10 031.73	38
April '12	-4 747.91	36
May '12	-3 322.54	38
June '12	-2 579.38	40

Therefore, the quarterly outflow in April-June 2012 weakened almost twice compared to the preceding quarter – to –UAH 10.65M. However, all that looked negative compared to Q2 2011 when the sector had received an inflow in amount UAH 18.36M (Chart 7), as Ukrainian equity indexes had plummeted by 18% (against -32% this quarter).

Since the beginning of 2012, an aggregate outflow from open-ended CII reached UAH 36.62M, and an annual outflow – UAH 91.06M, which was one and a half times more than in Q1.

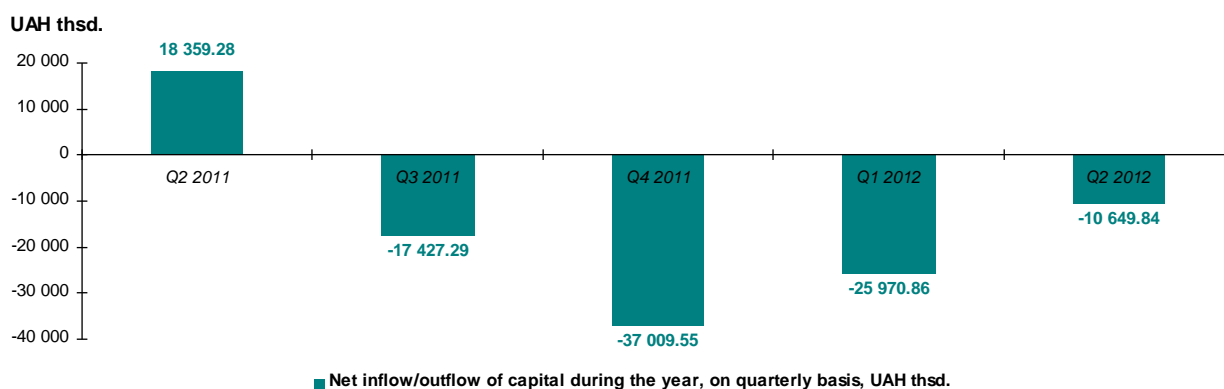


Chart 7. Net inflow/ outflow of capital in open-ended CII in Q2 2011-2012

Due to a sharper decline of the net assets of open-ended and interval funds compared to closed-end ones', within the asset structure of CII, with exception of venture ones, their respective shares continued to decrease in Q2 2012 – from 2.2% to 2.0% and from 1.9% to 1.8%, accordingly. Thus, the share of closed-end CII exceeded 96% (Chart 8).

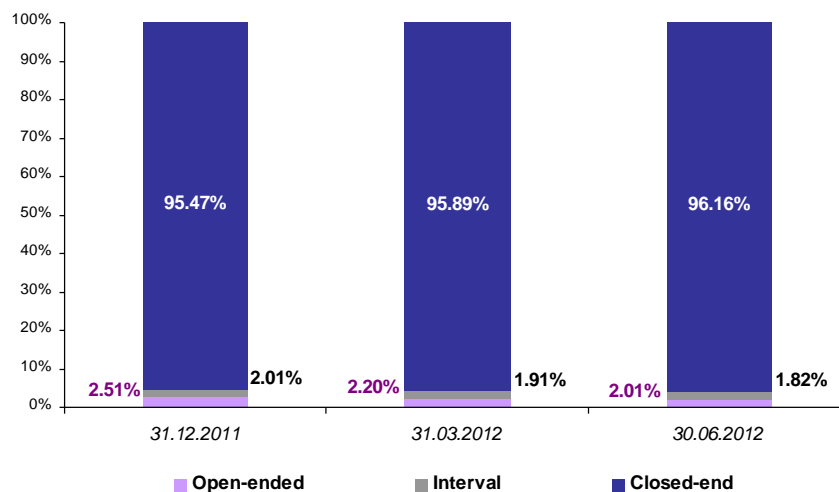


Chart 8. Dynamics of the non-venture CII NAV breakdown by the types of funds in Q1-Q2 2012



Owing to a rapid acceleration of the NAV growth rate, as well as the negative dynamics of the rest of CII sectors, venture funds in Q2 managed to increase their market share from 91.8% to 92.4%. Other closed-end funds decreased their share within the aggregate net assets of the CII market (from 7.9% to 7.7%) (Chart 9).

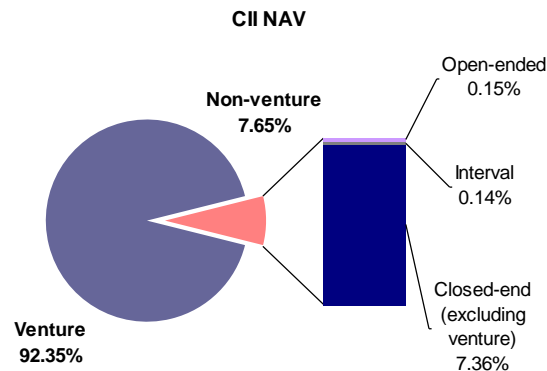


Chart 9. Distribution of CII NAV by the types of funds as of 30.06.2012

## 5. The Investors of CII

The legal entities – residents of Ukraine in Q2 2012 remained the major category of CII investors, although their share, after a short growth of Q1, again decreased (from 81.4% to 80.7%) (Table 5). That came as a consequence of narrowing of the national companies' share in venture funds, despite an actual increase of the amount of their investments. In the rest of CII sectors the situation was opposite: the value of investments made on the part of the legal entities-residents declined, but their share expanded in the context of the dynamics of other investors' contributions.

The dynamics of the NAV belonging to the citizens of Ukraine in April-June was similar, but, unlike in Q1, this investor category increased contributions into venture CII and continued withdrawing moneys from open-ended and, to a certain extent, closed-end and interval ones. All in all, the share of the natural persons-residents in CII decreased from 3.5% to 3.3% over the quarter, and without taking into account venture funds – from 24.3% to 24.0%.

The non-residents in Q2 increased their presence in open-ended and venture CII, having grown their aggregate share from 15.2% to 16.0%. In the meanwhile, the total value of investments belonging to foreigners grew solely in closed-end (including venture) CII.

Table 5. CII NAV breakdown by the types of investors as of 30.06.2012, % of NAV

Funds	Legal entities		Natural persons	
	residents	non-residents	residents	non-residents
Open-ended	37.07%	15.25%	47.41%	0.27%
Interval	51.51%	1.89%	46.52%	0.07%
Closed-end (excluding venture)	67.31%	9.44%	23.03%	0.22%
<b>All (excluding venture)</b>	<b>66.41%</b>	<b>9.42%</b>	<b>23.95%</b>	<b>0.21%</b>
Venture	81.89%	16.38%	1.60%	0.14%
<b>All (including venture)</b>	<b>80.70%</b>	<b>15.85%</b>	<b>3.31%</b>	<b>0.14%</b>

For **open-ended CII**, Q2 2012 brought a decrease in the contributions of all investor categories, which came as a result of a lengthy decrease of securities' value provoked by the stock market crisis. NAV redistribution among investor groups occurred, just as in the preceding quarter, in connection with an exit of a part of investors from funds, in particular, *natural persons*, mainly *residents*. Their share narrowed from 49.7% to 47.4%, at a decline of the aggregate NAV held by the said investors by UAH 14.4M (after –UAH 11.9M in Q1).





*The legal entities - residents* did not undertake massive withdrawals from open-ended funds during the quarter, although the amount of the aggregate net assets belonging to them once again decreased (-UAH 4.3M after -UAH 7.6M in Q1). Finally, most significant growth within the sector NAV, compared to other investor categories and types of funds, occurred in the share of national companies – from 35.5% to 37.1%.

The foreign citizens narrowed their presence in open-ended CII after having expanded it during three preceding months (from 0.28% to 0.27%), although their share in this sector remained the greatest one compared to the respective shares in other CII types. The NAV held by all non-residents in open-ended funds continued to grow – from 14.8% to 15.5%.

In **interval CII**, where contributions of all investor categories decreased, the leadership by NAV amount was preserved by the *legal entities-residents*, whose share in Q2 grew from 50.2% to 51.5%, whilst the investments' value dropped by UAH 3.1M (after +UAH 2.4M in Q1).

That was promoted by a notable drop of the NAV of the *natural persons-residents* in these funds (-UAH 7.1M in Q2 after -UAH 3.8M in Q1), or from 47.7% to 46.5% of the aggregate net assets.

In **closed-end non-venture CII** most of moneys, just as before, were held by *the national companies*, although the NAV belonging to them dropped by UAH 29.6M (after +UAH 366.1M in Q1). These investors' share, owing to the cuts of contributions by other investor categories, except for foreign citizens, grew from 66.9% to 67.3%.

Most notably declined the investments of the *natural persons-residents* (-UAH 41.5M), as well as of the *legal entities – non-residents* (-UAH 39.6M). As a result, these categories' shares narrowed from 23.2% to 23.0% and from 9.7% to 9.4% respectively.

The only category that increased its investments into closed-end funds were the *foreign citizens*. The NAV held by them grew by UAH 7.3M, and the share – from 0.13% to 0.22%.

In **venture CII** their key investors – *legal entities-residents* – grew the NAV by UAH 4 506.7M, though their share narrowed from 82.8% to 81.9%. That happened due to a faster growth of the contributions of *foreign companies* into these funds (+UAH 2 007.4M), to the benefit of which the sector NAV was now redistributed (the share growth from 15.5% to 16.4%).

Only the amount of the contributions of *the natural persons – non-residents* in those CII decreased – both in absolute and relative terms (-UAH 6.2M, from 0.15% to 0.14%).

*The citizens of Ukraine*, who had cut their investments in Q1 (-UAH 704.6M), resumed investments into venture CII (+UAH 98.0M), but their share remained virtually unchanged, as the sector aggregate net assets were growing at a similar pace.

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

In Q2 2012, the structure dynamics of the aggregate portfolios of different CII types by the **types of instruments** significantly differed from Q1 trends.

The share of *securities* narrowed in the sectors of open-ended and closed-end funds by 1.0-1.9 p.p. and comprised 62.0% and 60.6% respectively, and in all CII, with exception of venture ones – up to 60.8%. In interval CII, however, the share of stock instruments expanded to 70.8% (+1.0 p.p.) (Chart 10).

In monetary terms, the investments into stock instruments in open-ended, interval and closed-end funds, venture funds excluded, declined by UAH 207.21M, having leveled off the growth of Q1 (+UAH 193.14M), in particular, in closed-end CII – by UAH 186.62M, and in open-ended – by UAH 13.82M.

The key driver behind the decrease in the value and share of the investments into securities was a substantial cut of the investments (value) into *equities* – in all CII, venture ones excluded, in aggregate – by UAH 310.08M, including in closed-end funds – by UAH 283.89M, and in open-ended ones – by UAH 15.61M.

That was clearly due not only to a considerable drop in equities' value, but also due to an outflow of capital from open-ended CII in amount in excess of UAH 10M. For instance, the amount of *moneys* within their aggregate portfolio in Q2 declined by UAH 1.88M, which was almost seven times less than in Q1. In interval and closed-end funds most liquid assets also decreased – by UAH 8.19M and UAH 126.32M accordingly.

Unlike in Q1, *corporate bonds* demonstrated growth within the aggregate value of investments of all CII types, except venture ones – by UAH 13.66M, including in closed-end funds – by UAH 7.44M. Furthermore, as the equity market was declining, corporate debt securities were the most popular object of



the additional investments of open-ended (+UAH 3.7M in asset value), as well as interval CII (+UAH 2.52M).

Among other notable trends of the portfolio structures, a growth of the aggregate investments into municipal debt securities in all sectors of funds (+UAH 2.23M in aggregate), and in closed-end ones – also into government securities (+UAH 112.30M), should be mentioned. The value of “other assets”<sup>3</sup> in interval and closed-end CII increased as well – by UAH 163.52M in aggregate, including by UAH 159.65M in closed-end funds.

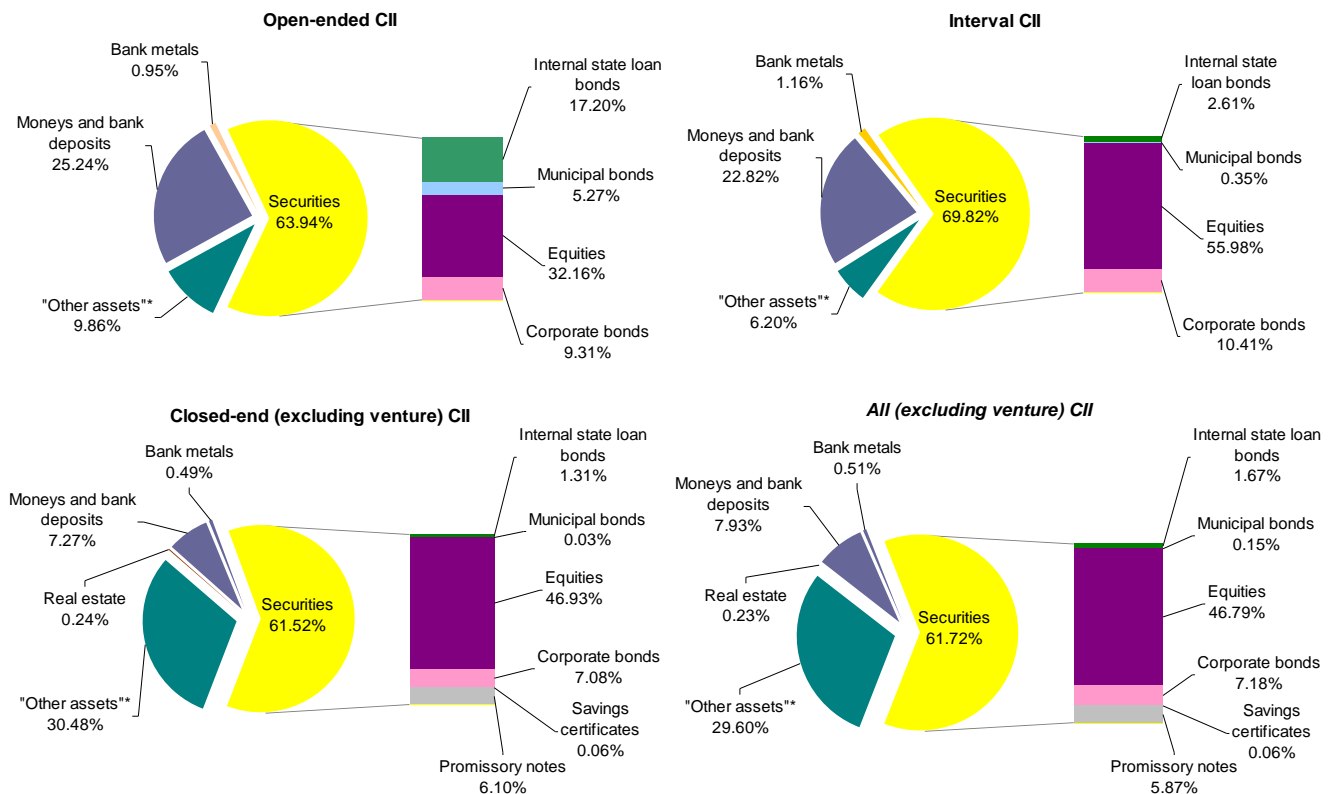


Chart 10. Non-venture CII asset structure, by the types of funds as of 30.06.2012

The key changes in the structure of the aggregate CII portfolios by the types of funds in Q2 2012 were as follows:

#### Open-ended funds

Increase of the value of investments into:

- corporate bonds – from 9.3% to 11.4%;
- municipal bonds – from 5.3% to 6.4%;
- moneys and bank deposits – from 25.2% to 26.3%;
- “other assets” – from 9.9% to 10.6%;

Decrease:

- equities – from 32.2% to 26.7% (twice less than at the peak in Q1 2010).

#### Interval funds

Increase:

- corporate bonds – from 10.4% to 13.3%;
- “other assets” – from 6.2% to 9.0%;
- municipal bonds – from 0.4% to 0.7%;

Decrease:

- moneys and bank deposits – from 22.8% to 19.7%;
- equities – from 56.0% to 53.8%;
- bank metals – from 1.2% to 0.5%.

<sup>3</sup> “Other assets” include accounts receivable, 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).

**Closed-end (non-venture) funds***Increase:*

- “other assets” – from 30.5% to 32.7%;
- internal state loan bonds – from 1.3% to 2.5%;
- corporate bonds – from 7.1% to 7.3%;

*Decrease:*

- equities – from 46.9% to 44.7%.
- moneys and bank deposits – from 7.3% to 6.1%.

Q2 2012 once again confirmed the differences in the structure and dynamics of the aggregate portfolio of **venture CII**. The share of *equities*, unlike in Q1, grew to 32.8% (from 31.2%) (Chart 11), and their aggregate value increased by UAH 4 124.04M.

The greatest contribution into asset growth was made by *promissory notes* (+UAH 3 007.44M) and “*other assets*” (+UAH 2 568.02M), and among securities – by *equities* (UAH 1 138.19M) as well.

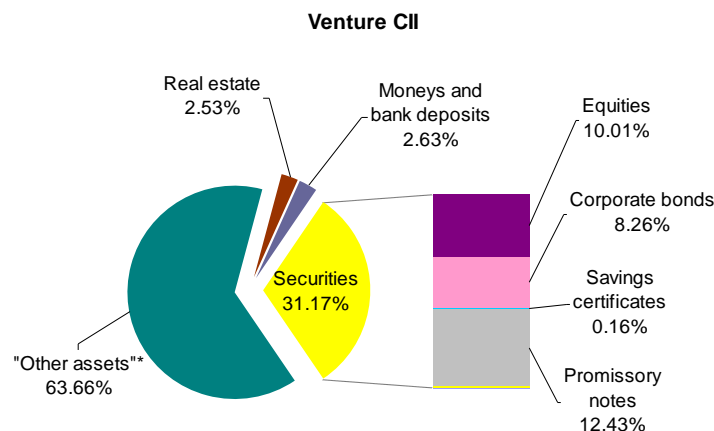


Chart 11. Venture CII asset structure as of 30.06.2012

The key changes in the structure of the aggregate **venture CII** portfolio, by main components:

*Increase:*

- promissory notes – from 12.4% to 14.1%;
- equities – from 10.1% to 10.3%;
- internal state loan bonds – from 0.01% to 0.03%;

*Decrease:*

- “other assets” – from 63.7% to 62.6%;
- corporate bonds – from 8.3% to 7.7%;
- moneys and bank deposits – from 2.6% to 2.3%;
- real estate – from 2.5% to 2.4%.

Promissory notes remained **the greatest, by an aggregate value of investments, group of instruments** within the aggregate securities portfolio of all CII as of 30.06.2012. The total amount of CII moneys invested thereto in Q2 increased by UAH 919.28M and reached UAH 18 364.76M, and their share within the aggregate CII portfolio expanded (from 38.5% to 38.9%) (Table 6).

The investments into equity, owing to venture funds, grew similarly (+UAH 901.85M) and reached UAH 17 437.79M, in other words, nearly 37% (after 36.5% in Q1) of the aggregate CII assets.

A notable increase also occurred in the value and share of internal state loan bonds within the CII portfolio (+UAH 131.94M, from 0.4% to 0.7%), which happened owing to closed-end CII.

Unlike in the preceding quarter, the total amount of investments into corporate bonds declined, and the said decline was the greatest one among all instruments (-UAH 64.92M, from 23.3% to 22.2%), which came as a result of the changes in the aggregate venture CII portfolio.



Table 6. Value breakdown of CII aggregate securities portfolio, by the types of instruments, as of 30.06.2012

Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Promissory notes	18 364 760 386	38.91%
Equities	17 437 793 238	36.95%
Corporate bonds	10 484 689 774	22.21%
Mortgage securities	381 995 616	0.81%
Internal state loan bonds	312 245 235	0.66%
Savings certificates	192 000 000	0.41%
Municipal bonds	18 813 602	0.04%
Other	5 046 612	0.01%
<b>Total</b>	<b>47 197 344 463</b>	<b>100.00%</b>

Once again, as of Q2 end, an unquestionable leadership within the consolidated portfolio of open-ended, interval and closed-end **non-venture funds** belonged to equities, although an aggregate value of investments thereto went down to UAH 4 396.59M, and their share – from 75.8% to 73.3% (Table 7).

Closed-end funds' investments into OVDP provided for an increase of these securities' share within the aggregate portfolio from 2.7% to 4.6%.

The share of corporate bonds, as a tiny growth of the investments' value was observed, expanded from 11.6% to 12.3%, whilst investments into these securities grew most compared to other types of instruments (+UAH 115.17M) and the value of investments into equities declined.

Table 7. Value breakdown of non-venture CII aggregate securities portfolio, by the types of instruments, as of 30.06.2012

Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	4 396 586 114	73.29%
Corporate bonds	736 356 963	12.28%
Promissory notes	573 063 079	9.55%
Internal state loan bonds	277 454 673	4.63%
Municipal bonds	14 324 903	0.24%
Other	795 182	0.01%
<b>Total</b>	<b>5 998 580 913</b>	<b>100.00%</b>

## **7. The Rate of Return of CII**

Q2 rapid drawdown in the stock exchanges, which replaced a half-year long volatile trend, did affect CII performance, though its impact was limited due to a relatively significant narrowing of the equities' share within their portfolios during several preceding quarters.

For instance, *open-ended funds* demonstrated losses that were three times less than the indexes' decline (-9.6% on average). In *closed-end funds*, whose average indicator of securities' value change was also negative, it traditionally appeared to be the highest among CII (-4.7%), and was similar to the rate of return on euro deposits (Chart 12).

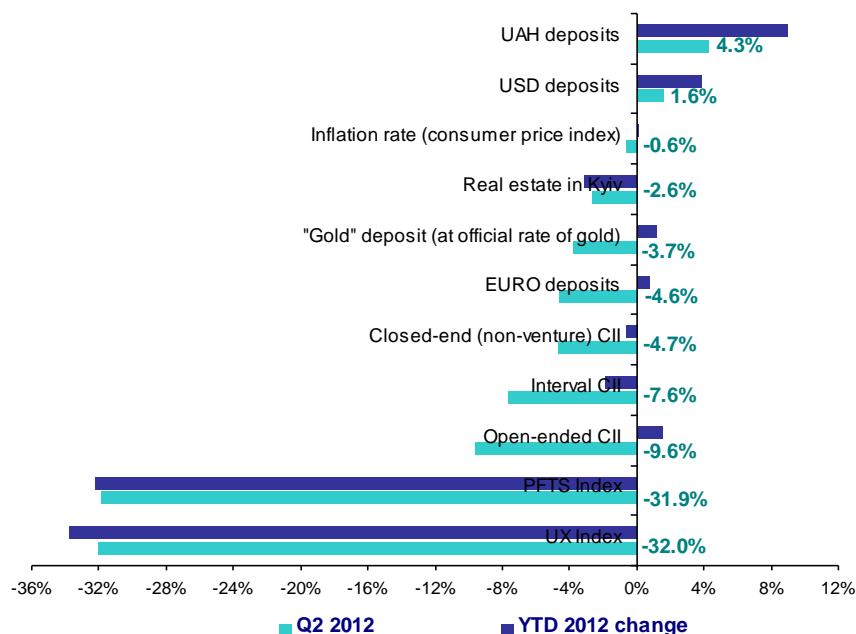


Chart. 12. Average rates of return – CII, deposits, equity indexes and inflation rate in Q1-Q2 2012<sup>4</sup>

In Q2, the number of funds that demonstrated securities' value growth among open-ended CII decreased up to 6 out of 38 (after 29 out of 40 in Q1), at that, one fund managed to preserve its' certificate's value at the same level. Among interval funds positive rates of return were generated by 7 out of 35 (after 20 out of 34) funds, and among closed-end ones – by 47 out of 147 (after 52 out of 144).

The range of the rates of return of open-ended CII narrowed (between -30.9% and +3.6%), and of interval ones – remained unchanged and shifted higher (between -33.8% and +10.0% in interval ones). The sector of closed-end funds, on the contrary, demonstrated a broader range of results (between -61.2% and +34.4%), and 6 CII of this type generated double-digit rates of return.

Gold deposits once again demonstrated pendular quarterly dynamics, and, therefore, were loss-making (-3.7% after +5.1%), just as the preceding quarter's leader – Euro deposits (-4.6%).

One-year deposits in UAH and USD once again generated positive rates of return (+4.3% and +1.6% accordingly), at that, one interval fund ensured a greater increase of the investments' value compared to UAH deposits, and 5 open-ended and 3 interval ones – compared to USD deposits<sup>5</sup>.

## 8. Resume

Although downtrend was common for the global securities markets in Q2 2012, the situation in the national stock market appeared considerably more serious than in the well-developed ones, which has been traditional for the periods of crisis aggravation.

After the inflow of EUR 91 bln. to the European open-ended investment funds (UCITS) in Q1, starting from April balanced funds started registering outflows, since May – equity funds joined them, and since June – money market funds as well, having demonstrated unexpected –EUR 24 bln. All in all, over the quarter the industry showed a weak inflow of EUR 7 bln., at the assets of EUR 5 865 bln., though money market funds lost EUR 1 bln., balanced funds – EUR 7 bln., and equity funds – EUR 28 bln.<sup>6</sup>

<sup>4</sup> CII rates of return are calculated based on the reporting data for Q2 2012 (38 open-ended, 35 interval and 147 closed-end CII) and Q1 2012 (40 open-ended, 34 interval and 144 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 based on Kyiv real estate value index (Source: <http://www.blagovest.ua>).

<sup>5</sup> It is necessary to take into consideration these funds' liquidity, which allows 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).

<sup>6</sup> See [June Monthly EFAMA Investment Fund Industry Fact Sheet](#), [European Monthly Industry Fact Sheet](#).



**The key trends of the Ukrainian CII market in Q2 2012** were slowing down of the capital outflow from the public sector and a further decrease of the investments into equities, as the stock market crisis was deepening, along with an *increase of the investments into corporate debt securities*, as well as *growing power of the venture sector*.

**The number of AMC** returned to downward dynamics, whilst the number of registered CII and CII that reached compliance with the standard on minimal asset volume (venture ones) continued to grow as before. The quantity of funds in the open-ended and interval sectors remained unchanged, though financial conditions pushing it towards decrease further developed.

**The assets and NAV** of CII continued to grow, although now solely owing to venture funds. All in all, as of 30.06.2012, an aggregate value of all CII assets reached UAH 136 945M (+4.4%), and of the net assets – UAH 120 734M (+5.6%), 92.4% of which belonged to venture funds.

**An outflow of capital** from open-ended funds continued to slow down during the quarter and turned out to be 2.5 smaller than in Q1 (UAH 10.6M). It accounted for one half of the quarterly NAV drop in the sector – an indicator similar to the one of Q1 (UAH 20.4M, -9.9%). Just as before, capital movement in open-ended CII was mainly affected by 1-2 separate funds. At that, funds' liquidity somewhat decreased as the assets in the form of equities were sold out.

Legal entities – residents, who held over 66% of funds' NAV, not taking into account venture ones, and 80% – taking them into account, remained the key **CII investor category** in Q2 2012. In open-ended funds, just as previously, the greatest was the participation of the citizens of Ukraine (over 47%), who, however, also withdrew most of moneys from these CII. National legal entities were second by the volume of NAV held in open-ended funds (37%). Notable was a growth of the investments of the natural persons – non-residents in closed-end CII on the whole, at a simultaneous decrease thereof in venture ones. All in all, non-residents held almost 16% of all CII NAV, in particular, most in venture CII – 16.5%.

**The rate of return** of funds in Q2 on the whole declined, though on average was considerably better than the equity indexes' indicators. The sectors of open-ended and closed-end CII swapped placed compared to Q1 – the open-ended ones incurred the greatest losses (-9.6%), and the closed-end ones – the smallest ones (-4.7%). The number of CII that generated positive indicators of investments' value change decreased: among open-ended funds – from 73% to 16%, among interval and closed-end ones – from 60% to 20% and from 36% to 32% respectively.

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

- Funds' Daily Data (publicly offered CII):  
[Open-ended Funds](#)  
[Interval Funds](#)  
[Closed-end Funds](#)
- Analytical reports and statistics of publicly offered CII:  
[Weekly](#)  
[Monthly](#)
- [CII Rankings](#):  
CII – by the types of funds  
CII – by the classes of funds