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**1. The Stock Market**

In Q3 2012, majority of well-developed stock markets demonstrated growth that was periodically tried out by downward corrections after publications of distressing macroeconomic data. Political debates relating to the solving of the Euro zone fiscal problems also continued exercising pressure on the markets.

By mid-quarter, the US equity market reached its maximum since 2008, but optimism failed due to the manufacturing and corporate profits statistics. As consumer confidence dropped to the ten months' low, investors were hoping that the FRS would continue taking steps on economic growth support, which actually took place by quarter end.

In July Spain, being pressured by the EU, adopted a plan on budgetary spending cuts, which supported the markets. The expectations of further incentives on the part of the central banks of England, China and the Euro zone aimed at coping with recession and restoring economic growth rate also came true.

According to the data of Q2 and Q3, two leading EU economies - those of Germany and France – demonstrated GDP growth, though it was weak and did not rescue the Euro zone from recession, as its GDP was going down two quarters in a row. And, although international rating agencies and the IMF further continued lowering growth forecasts for the Euro zone and the global economy, ratification of the European stabilization mechanism (ESM) by Germany pushed quotations of European equities to their 15-months highs.

China equities, contrary to the well-developed markets' dynamics, were losing ground during the whole quarter as the country's economic growth had been slowing down over two last years, as well as due to the territorial conflict with Japan.

Key global equity indexes in Q3 demonstrated between -6.3% and -1.5% in China and Japan and up to +8.0% and +12.5% in Russia and Germany respectively. US indexes demonstrated a more reserved growth – by 4-6%, which, however, made up for the preceding quarter decline (Table 1, Chart 1).

Table 1.

*National markets' stock indexes in Q2-Q3, 2012 and since the beginning of 2012\**

Indexes	30.06.2012	30.09.2012	Q2 2012 change	Q3 2012 change	YTD 2012 change
DAX (Germany)	6 416.28	7 216.15	-7.64%	12.47%	22.34%
RTS (Russia)	1 350.51	1 458.26	-17.54%	7.98%	5.53%
HANG SENG (Hong Kong)	19 441.46	20 840.38	-5.42%	7.20%	13.05%
MICEX (Russia)	1 387.52	1 475.70	-8.56%	6.36%	5.24%
S&P 500 (USA)	1 362.16	1 440.67	-3.29%	5.76%	14.56%
CAC 40 (France)	3 196.65	3 354.82	-6.63%	4.95%	6.17%
DJIA (USA)	12 880.09	13 437.13	-2.51%	4.32%	9.98%
UX (Ukraine)	967.00	1 007.86	-31.99%	4.23%	-30.92%
WSE WIG 20 (Poland)	2 282.22	2 371.42	-0.19%	3.91%	10.58%
FTSE 100 (Great Britain)	5 571.15	5 742.07	-3.42%	3.07%	3.05%
PFTS (Ukraine)	362.31	369.47	-31.85%	1.98%	-30.87%
NIKKEI 225 (Japan)	9 006.78	8 870.16	-10.68%	-1.52%	4.91%
SHANGHAI SE COMPOSITE (China)	2 225.43	2 086.17	-1.65%	-6.26%	-5.15%

\* Based on the data of exchanges and Bloomberg Agency

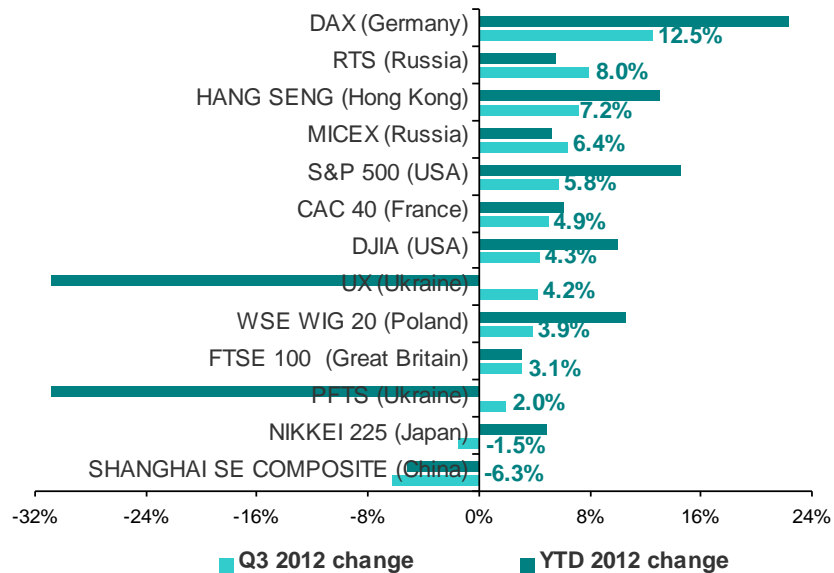


Chart 1. National markets' stock indexes' dynamics in Q3 2012 and since the beginning of 2012

In Q3, after a deep sinking of Q2, growth of Ukrainian equities was reserved by the turbulence in the international markets and rising internal political tension on the eve of parliamentary elections. However, that did not prevent national "blue chips" from demonstrating growth commensurate with the one of the leading global indexes (+2.0-4.2%).

At that, trading activity in the stock trading floors continued going down in terms of the value of trades made: the volume of equity trading on the UX dropped by 8.2% up to UAH 2 223.89M, and of corporate bonds trading – by 65.7% up to UAH 88.20M, with the total value of trades made in the stock (spot) market of the exchange going down by 13.4% up to UAH 2 353.22M. In the meantime, the trades in securities made on the exchange became on average smaller.

According to the results of nine months of 2012, the national equity market remained an outsider (-31% versus -5% in case of Chinese, +5% - Russian, +11% - Polish and +22% - German equities).

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

In Q3 2012, the number of asset management companies returned to the number of Q1 2012 and 2011, and, all in all, continued balancing around the level observed during the last one or two years. Thus, according to the UAIB data, as at 30.09.2012 there were 344 AMC in operation in Ukraine (+4 after -3 in Q2) (Chart 2).

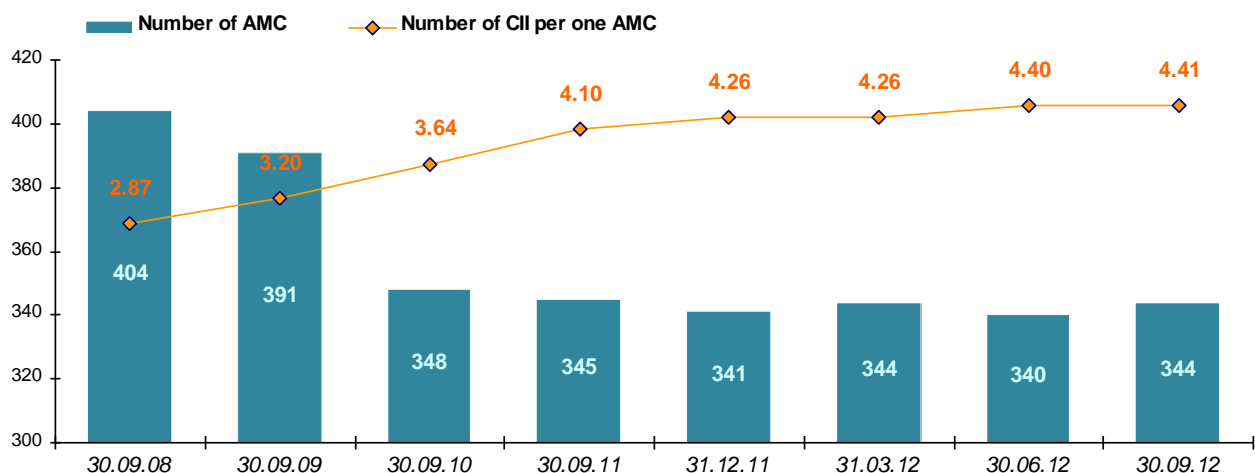


Chart 2. Dynamics of the number of AMC and CII per one AMC in Q3 2008-2012 and during the last year



The number of registered CII continued to grow, though at somewhat slower pace (+21 fund versus +33 during Q2). As at 30.09.2012 there were 1518 CII, which promoted further concentration in the collective investments market: one AMC was managing on average 4.41 CII (after 4.40 in the preceding quarter).

In Q3 2012, according to UAIB data, 29 CII reached compliance with the standard on minimal asset volume (in Q2 – 35), and liquidation of a number of other funds continued. As a result, the total number of formed CII during Q3 increased by 21 funds, thereby repeating Q2 indicator, and as at 30.09.2012 reached 1200 (Table 2).

Table 2.  
Dynamics of the number of CII that reached compliance with the standards, by the types and legal forms of funds in Q1-Q3 2012

	Total	UIF					CIF		
		O*	* - interval	CD*	CNN*	CV*	* - interval	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
30.09.2012	1200	41	39	13	46	817	2	118	124
Q3 2012 change	1.78%	-2.38%	2.63%	0.00%	12.20%	1.49%	0.00%	-0.84%	4.20%
Change since the beginning of 2012	6.67%	-4.65%	-2.50%	30.00%	31.43%	5.83%	0.00%	-7.81%	30.53%

\*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

The sectors of venture PIF and CIF were the growth leaders (+12 and +5 CII after +14 and +10 in Q2 respectively), at that, compliance with the standards was reached by 18 and 4 CII accordingly.

Once again, the number of closed-end non-diversified PIF increased (+5 funds), as 6 such CII were recognized. For the first time since January-March 2012 a new interval fund emerged that managed to reach compliance with the standards, and the total number of such CII grew for the first time since January-March 2011.

Among open-ended CII one fund was liquidated and one more remained in the process of liquidation. As at Q3 end, the number of open-ended funds with asset value below the standard decreased from 16 to 15, despite an increase of the minimal value of the said indicator by 0.7% since quarter start. Until year end, the market expects two planned increases to take place – from the start of Q4 and starting from December 1 – by 1.5% each, which will enhance regulatory pressure on the sector and could potentially increase the probability of further narrowing thereof. Simultaneously, in Q3 one new open-ended CII was registered, which is yet to reach compliance with the standards and has half a year to do that.

All in all, 29 new CII were founded during the quarter, and among all registered funds under AMC management as at September 2012 end there were 116 funds that were yet to reach compliance with the standards (after 118 in Q2).

According to the data generated by the UAIB in line with the amendments to the *Methodology for ranking asset management companies and collective investment institutions (unit and corporate investment funds) based on their performance results*<sup>1</sup>, which had introduced a classification of diversified publicly placed CII based on their asset structure, the total number of such CII in Q3 grew from 77 to 78.

Just as before, most of them (78.2%) were classified as “other funds” (such that did not fit into the types of equity funds, bond funds and hybrid funds), though the number of such CII went down from 63 to 61. Some funds were transferred to the category of hybrid funds (from 9 to 12 CII, 15.4%). The number of equity funds and bond funds remained unchanged (4 and 1 respectively), at that, there was only one open-ended CII among the former (Chart 3).

<sup>1</sup> See. *Rankings by the classes of funds*: <http://www.uaib.com.ua/rankings/byclass.html>

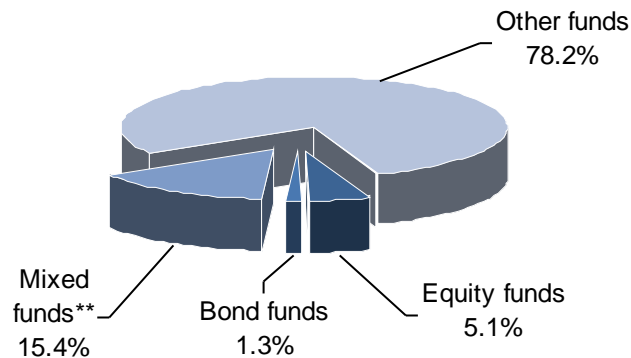


Chart 3. Diversified CII with public placement, by the classes of funds as at 30.09.2012

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

In Q3 2012, five AMC joined asset management market in Kyiv Region, and one each – in Dnipropetrovs'k Region and Crimea. In meantime, there were companies that exited from business, therefore, the total number of AMC in Kyiv and Region grew by 2 up to 241 (Chart 4), and their share narrowed from 70.3% to 70.1%.



Chart 4. Regional distribution of AMC number as at 30.09.2012

The regional distribution of CII also demonstrated further narrowing of the share of Kyiv and Kyiv Region – from 70.3% to 70.0%. Under such circumstances, the respective shares of other regions mainly broadened, and the makeup, as well as the order of the leaders remained unchanged (Chart 5).

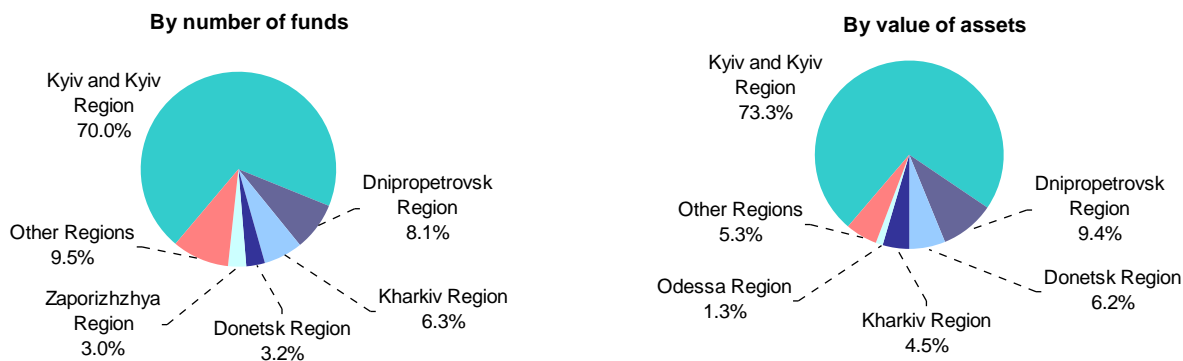


Chart 5. Regional distribution of CII by the number of CII and the value of their assets under management, as at 30.09.2012

Unlike in Q2, the share of Kyiv Region within the regional distribution of CII assets under management in Q3 also somewhat narrowed – from 73.7% to 73.3%. Among other regions – leaders by CII assets only a nominal increase occurred in the share of Kharkiv region – from 4.51% to 4.53%, and the rest of the country's regions as at 30.09.2012 made up already for over 5% of CII assets (5.3%) based on funds' registration place.

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

In Q3, the key trend of CII market asset dynamics remained unchanged: simultaneously with a decrease of the asset value in open-ended and interval funds due to the turbulence in the stock markets, the sector of closed-end CII, including venture ones, continued to grow. That occurred, in particular, owing to an increase of the number of recognized venture and other closed-end funds that filed respective information with the UAIB (886 versus 875 and 154 versus 151 respectively). Compared to Q2, there was one more interval CII that filed reporting.

As at 30.09.2012, an **aggregate total value of CII** assets reached UAH 142 222.97M, and its quarterly growth underwent a minor reduction compared to Q2 – up to +UAH 5 277.58M (+3.9%), including venture CII – up to +UAH 4 361.38M (+3.4%) and UAH 131 436.82M (Chart 6).

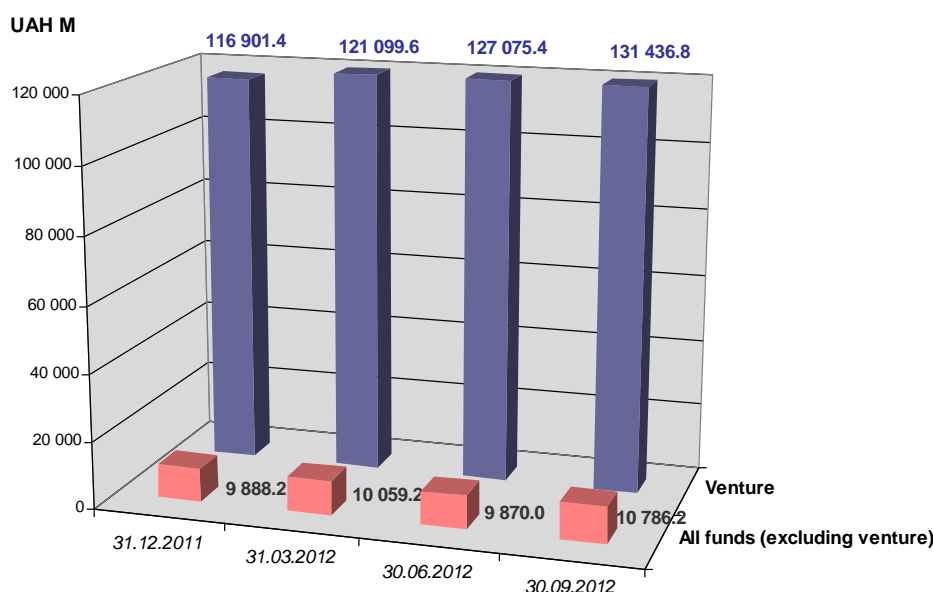


Chart 6. Dynamics of the asset value of CII in Q1-3 2012



The net assets of CII in Q3, just as in the preceding quarter, grew more than the total assets, which was due to the dynamics of venture funds, the liabilities of which continued to diminish. During the quarter, the NAV of venture CII grew by +UAH 5 476.25M, +4.91%, to UAH 116 971.44M, and aggregate net assets of all CII as at 30.09.2012 reached UAH 126 703.75M (+UAH 5 969.41M, +4.94%).

All in all, open-ended and interval CII once again experienced net asset value decrease, which, however, was three times slower. The NAV of open-ended funds went down by UAH 6.31M (-3.4%) to UAH 179.72M, in other words, to its low since Q2 2009 (UAH 158.31M, 33 funds), whilst the number of open-ended operating CII increased from 29 to 40. The NAV of interval funds went down by UAH 3.67M (-2.18%) to UAH 164.86M.

NAV growth in the sector of closed-end CII reached UAH 503.15M (5.66%), thereby making up for Q2 decline (-UAH 102.50M, -1.1%), and as at 30.09.2012 the sector NAV comprised UAH 9 387.73M (Table 3).

Table 3.

Dynamics of the NAV of CII, by the types of funds, in Q1-Q3 2012, UAH M

Funds	31.12.2011	31.03.2012	30.06.2012	30.09.2012	Q3 2012 change	YTD 2012 change
Open-ended	227.01	206.40	186.03	179.72	-3.39%	-20.83%
Interval	181.85	179.27	168.53	164.86	-2.18%	-9.34%
Closed-end (excluding venture)	8 625.30	8 987.08	8 884.58	9 387.73	5.66%	8.84%
All funds (excluding venture)	9 034.16	9 372.76	9 239.14	9 732.31	5.34%	7.73%
Venture	103 656.91	104 928.54	111 495.19	116 971.44	4.91%	12.84%
All funds (venture included)	112 691.07	114 301.30	120 734.34	126 703.75	4.94%	12.43%

In July-September 2012, NAV breakdown of CII market by the sectors of open-ended, interval and closed-end (with exception of venture ones) funds continued the trends of the preceding quarters: the respective shares of the sectors of open-ended and interval funds narrowed – from 2.0% to 1.9% and from 1.8% to 1.7%. 96.5% of the market belonged to closed-end CII (Chart 7).

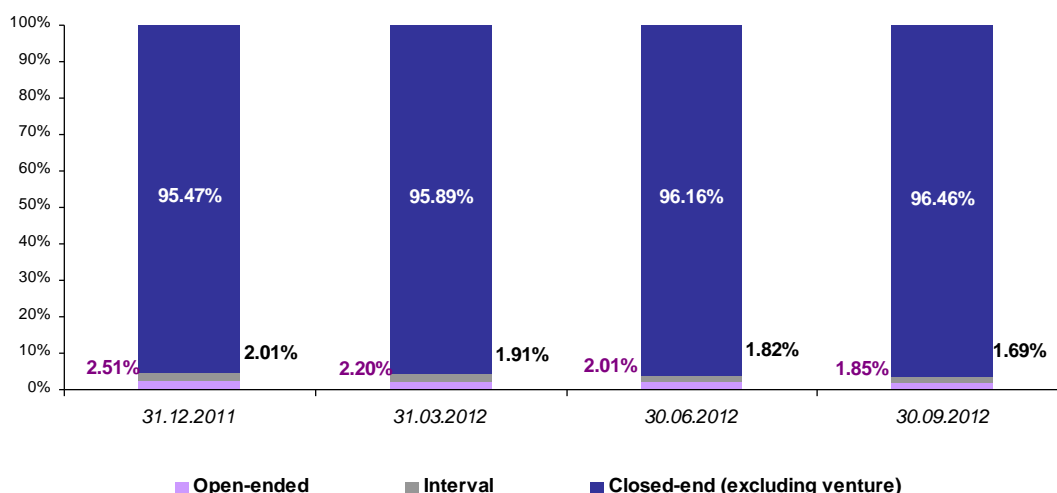


Chart 7. Dynamics of the non-venture CII NAV breakdown by the types of funds in Q1-3 2012

Owing to the quick growth of the sector of closed-end CII (with exception of venture ones), which came to replace Q2 decline, this sector's share increased from 7.36% to 7.41%, and the one of the venture one – narrowed from 92.35% to 92.32% (Chart 8).

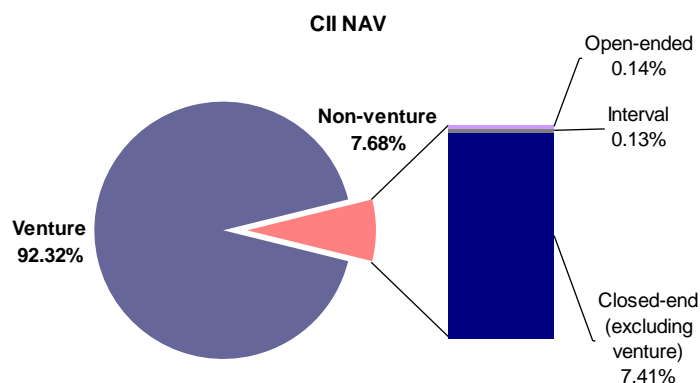


Chart 8. Distribution of CII NAV by the types of funds as at 30.09.2012

**Capital outflow from open-ended CII** continued throughout Q3, though also at a slower pace (Chart 9, Table 4). A minor increase was registered in August only – simultaneously with sinking of the stock indexes. Traditionally, an aggregate outflow from the sector was to a great extent due to one or several funds: in July – September between 33% and 57% of the outflow was due to one CII, at that, each month it was a fund with a conservative strategy.

In the meantime, during Q3, between 2 and 4 open-ended CII per month demonstrated additional inflow of capital from investors, having attracted during the quarter UAH 1.47M in aggregate (after UAH 1.07M in Q2).

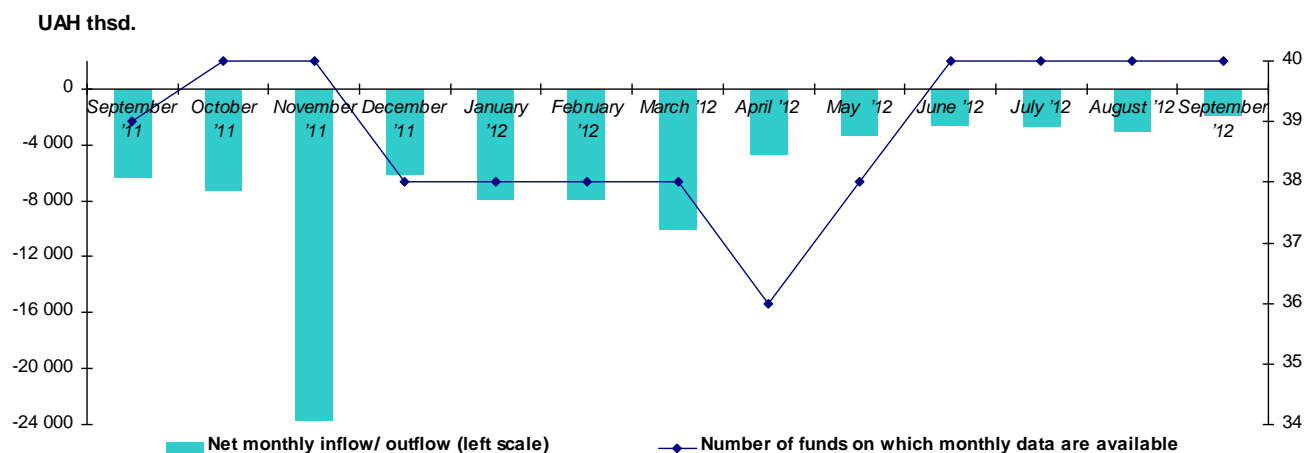


Chart 9. Monthly net inflow/ outflow of capital in open-ended CII in September 2011-2012 (based on daily data)

Monthly net inflow/ outflow of capital in open-ended CII in September 2011-2012

Table 4.

Period	Net monthly inflow/outflow	Number of funds on which monthly data are available
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
July '12	-2 690.07	40
August '12	-3 024.80	40
September '12	-1 872.90	40



Therefore, Q3 aggregate net outflow from open-ended CII reached UAH 7.59M (Chart 10), or, in other words, declined almost 1.5 times compared to Q2, though just as previously, an outflow from two funds comprised almost 50% of the aggregate sector outflow. The said outflow also decreased almost twice compared to Q3 2011 when the period of losses incurred each and every quarter and month had started. Finally, an aggregate outflow from open-ended CII for 9 months of 2012 reached UAH 44.21M, and for the year – dropped to UAH 81.22M, which is almost UAH 10M less than in Q2.

Therefore, upon open-ended CII investors' exit inflicted losses that turned out to exceed NAV decrease. Therefore, the stock market dynamics in Q3 had a generally positive impact on the sector and allowed funds to somewhat make up for the outflow by positive portfolio revaluation.

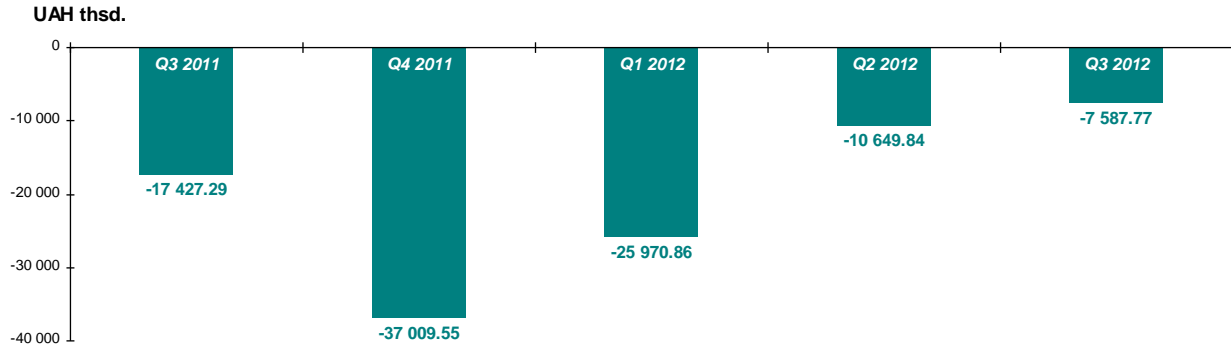


Chart 10. Net inflow/ outflow of capital in open-ended CII in Q3 2011-2012

In July-September around the globe, just as in Ukraine, an outflow of capital from equity funds, as well as from money market funds, continued. In the meantime, the industry of European open-ended investment funds (UCITS) on the whole, similarly to Q2, generated an additional net inflow of investments, which this time reached EUR 20 bln. (preceding quarter - +EUR 7 bln.), with net assets growth reaching EUR 6 174 bln. At that, long-term funds additionally attracted EUR 51 bln., as investor confidence was growing due to the incentives taken by the ECB. Bond funds proved to be the leaders with the net inflow in amount EUR 50 bln. (April-July - +EUR 42 bln.). Thus, UCITS- money market funds lost EUR 31 bln. as a net outflow (after –EUR 1 bln.). Equity funds decreased quarterly outflow from EUR 28 to 9 bln., and balanced funds managed to demonstrate positive performance result in amount EUR 10 bln. (after –EUR 7 bln.)<sup>2</sup>.

## 5. The Investors of CII

In Q3 2012, *legal entities – residents of Ukraine* still held the greatest share in collective investment institutions, which grew, having returned to Q1 level (from 80.7% to 81.4%). That occurred due to a faster, compared to net asset growth, growth of this category's investments, in the first turn in closed-end (including venture) CII. That was also promoted by a drop of *non-residents'* investments throughout all CII sectors, their share narrowing from 16.0% to 15.3% on the whole. Thus, the share of legal entities – residents increased in all types of CII and was the major one, except in open-ended funds (Table 5).

Table 5.

*CII NAV breakdown by the types of investors as at 30.09.2012, % of NAV*

Funds	Legal entities		Natural persons	
	residents	non-residents	residents	non-residents
Open-ended	38.16%	14.69%	46.93%	0.21%
Interval	54.19%	1.88%	43.86%	0.07%
Closed-end non-venture	68.40%	9.26%	22.17%	0.16%
<b>All (non-venture)</b>	<b>67.61%</b>	<b>9.24%</b>	<b>23.00%</b>	<b>0.16%</b>
Venture	82.55%	15.80%	1.61%	0.04%
<b>All (including venture)</b>	<b>81.40%</b>	<b>15.29%</b>	<b>3.26%</b>	<b>0.05%</b>

<sup>2</sup> See [EFAMA Quarterly Statistical Report Q3 2012](#).





*Citizens of Ukraine* in Q3 behaved just as in Q2: decreased investments into open-ended and interval funds and increased investments into closed-end, in particular, venture funds, where growth of the latter broadened these investors' share within the aggregate sector NAV.

All in all, the share of natural persons – residents within the net assets of CII once again dropped during the quarter – from 3.31% to 3.26%, and not taking venture funds in account – from 23.95% to 23.00%.

In **open-ended CII** in Q3 2012 investments of all investor categories lost in value, which occurred primarily owing to continuing capital outflow. Just as before, most active withdrawal of investments was performed by *natural persons*, in particular, *residents*, which brought to narrowing of this key category's share in open-ended funds from 47.4% to 46.9%. At that, an aggregate NAV held by these investors dropped by UAH 3.86M (after –UAH 14.4M in Q2). And in relative terms the greatest narrowing took place in the share of *foreigners* – from 0.27% to 0.21%, however, in absolute terms this decrease was the least significant one.

*Legal entities – residents* demonstrated reserved behavior towards open-ended CII, their investments thereto in aggregate decreasing by nominal UAH 0.37M, or 0.5% (after –UAH 4.3M in Q2). With an outflow of investments in amount UAH 7.59M and sector NAV decline by UAH 6.31M, that conditioned a further broadening of the share of Ukrainian companies in most liquid funds – from 37.1% to 38.2%.

In **interval CII** an increase in the value of investments of *companies-residents* was observed (+UAH 2.52M after –UAH 3.1M in Q2 and +UAH 2.4M in Q1). As the amounts of investments of other investor categories were decreasing, that promoted a further broadening of the share of legal entities – residents from 51.5% to 54.2%. A similar change, though of an opposite nature, occurred with the share of *natural persons – residents* in these funds (from 46.5% to 43.9%), whose investments lost UAH 6.09M (after –UAH 7.1M in Q2).

In **closed-end CII (with exception of venture ones)** the NAV held by *legal entities-residents* in Q3 added UAH 441.32M (after –UAH 29.6M in Q2 and +UAH 366.1M in Q1). In relative terms, it grew from 67.3% to 68.4%. In connection with that, the share of all other investor categories in these CII decreased, though Ukrainian citizens and foreign companies also managed to attract more investments compared to previous quarter, and foreigners' investments, compared to Q2 dynamics, declined (-UAH 3.9M after +UAH 7.3M).

Primary investors of **venture CII – legal entities-residents** – in Q3 sped up the pace of growing investments: the NAV held by them increased by UAH 5 260.74M (after +UAH 4 506.7M in Q2). In view of the fact that the said growth was relatively higher than the pace of increase of the aggregate sector net asset value, these investors' share broadened – from 81.9% to 82.6% – almost to Q1 level.

The share of non-residents in venture funds narrowed (all in all – from 16.5% to 15.8%), owing to natural persons, as well as legal entities, though the latter held UAH 212.54M more within the net assets of these CII.

Most quick growth of investments into venture funds was ensured by *Ukrainian citizens* (+UAH 107.73M after +UAH 98.0M in Q2 and –UAH 704.6M in Q1), at that, due to a relatively insignificant participation of this investor category in venture funds, its share increase was a nominal one – from 1.60% to 1.61%.

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

In Q3 2012, the structure of the aggregate portfolios of different CII types by the **types of instruments** mainly continued Q2 trends. In the meantime, the share of *securities* once again narrowed solely in the sector of open-ended CII, at that, sharper than in Q2 (-3.3 p.p. after -1.9 p.p.), and comprised 58.8%. In the rest of CII sectors, with exception of venture ones, it broadened – to 61.2% in closed-end and to 76.2% in interval ones (Chart 11).

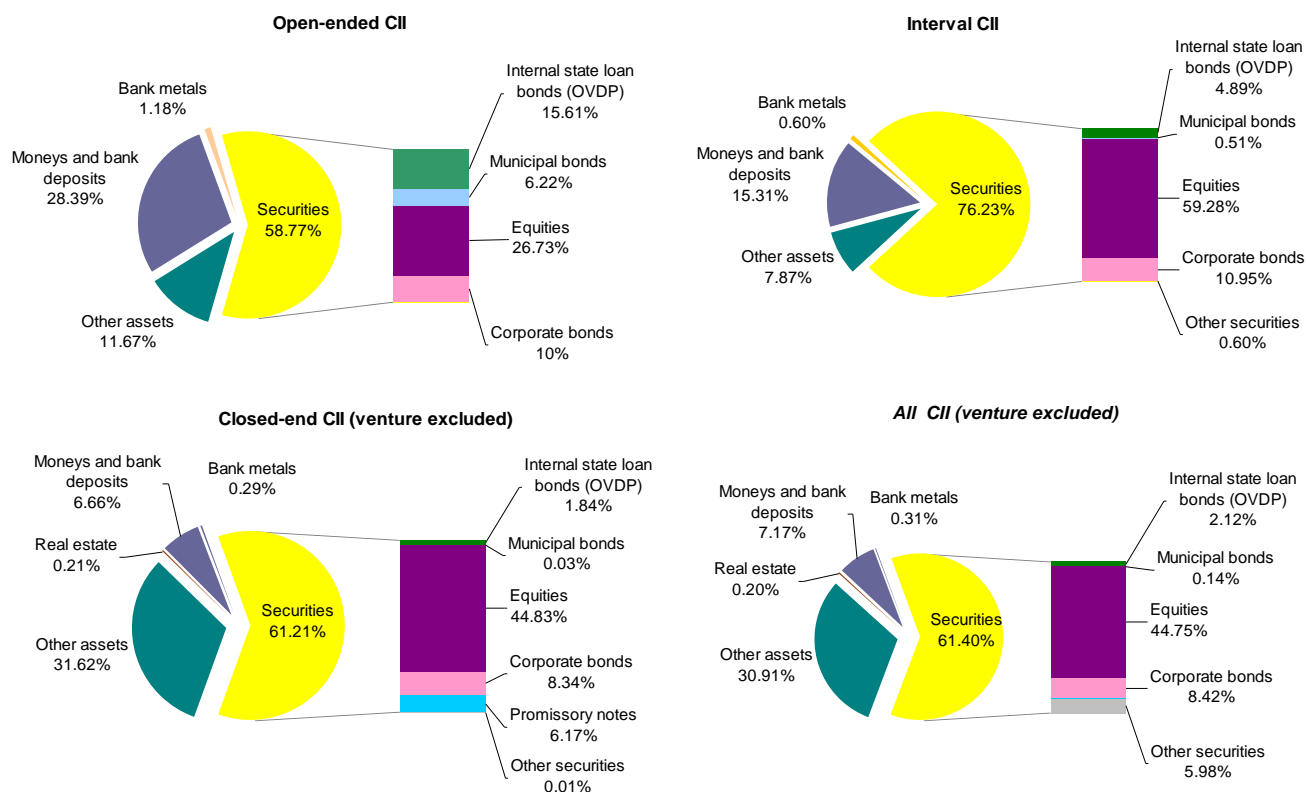


Chart 11. Non-venture CII asset structure, by the types of funds as at 30.09.2012

In monetary terms, a decrease of the investments into stock instruments occurred in open-ended funds only – by UAH 13.39M (after –UAH 13.82M during Q2). In the meanwhile, in all CII sectors in aggregate, with exception of venture ones, the amount of securities grew by UAH 617.09M, which significantly exceeded Q2 decrease (-UAH 207.21M). That happened owing to closed-end CII, the investments into the securities of which grew by UAH 623.54M.

In open-ended and closed-end funds, with exception of venture ones, the investments into *government and municipal securities* decreased (in aggregate – by UAH 51.49M), and in interval CII – increased (+UAH 3.9M).

The value of investments into *equities* in Q3 dropped in open-ended funds only (-UAH 3.22M, after –UAH 15.61M in Q2), which, however, was commensurate with the pace of decrease of the sector NAV on the whole, and, therefore, hardly affected the said sector's share within the aggregate assets. In all CII, with exception of venture ones, aggregate investments into equities grew by UAH 426.92M (including in closed-end funds – by UAH 421.72M), contrary to a decrease by UAH 310.08M (UAH 283.89M) over three preceding months.

At that, the amount of *moneys* in open-ended CII somewhat increased (+UAH 0.60M), with an aggregate net outflow of UAH 7.59 M and a net inflow of UAH 1.47M to some of these funds observed.

In interval CII cash and moneys on bank accounts continued to decrease (-UAH 7.83M after –UAH 8.19M), and in closed-end CII, with exception of venture ones, unlike in the preceding quarter – to grow (+UAH 118.06M versus –UAH 126.32M).

*Corporate bonds* narrowed presence within the assets of open-ended and interval CII – by UAH 3.47M and UAH 4.23M respectively, which almost leveled off Q2 changes. In the meantime, investments into these securities grew in closed-end funds (+UAH 178.66M after +UAH 7.44M in Q2).

Among other notable changes within CII portfolio structure – a further increase of the amount of “*other assets*”<sup>3</sup> in closed-end CII, with exception of venture ones, – by UAH 191.52M (after +UAH 159.65M for three preceding months), as well as their decrease by UAH 2.05M in interval funds (after +UAH 4.03M).

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



The key changes in the structure of the aggregate CII portfolios by the types of funds in Q3 2012 were as follows:

#### **Open-ended funds**

Increase of the share of investments into:

- moneys and bank deposits – from 26.3% to 28.4%;
- “other assets” – from 10.6% to 11.7%;
- bank metals – from 1.0% to 1.2%.

Decrease:

- internal state loan bonds – from 17.6% to 15.6%;
- corporate bonds – from 11.4% to 10.2%;
- municipal bonds – from 6.4% to 6.2%.

#### **Interval funds**

Increase:

- equities – from 53.8% to 59.3%;
- internal state loan bonds – from 2.6% to 4.9%.

Decrease:

- moneys and bank deposits – from 19.7% to 15.3%;
- corporate bonds – from 13.3% to 11.0%;
- “other assets” – from 9.0% to 7.9%;

#### **Closed-end (with exception of venture) funds**

Increase:

- corporate bonds – from 7.3% to 8.3%;
- moneys and bank deposits – from 6.1% to 6.7%;
- equities – from 44.7% to 44.8%.

Decrease:

- “other assets” – from 32.7% to 31.6%;
- internal state loan bonds – from 2.5% to 1.8%;

The aggregate portfolio of **venture CII** in July-September mostly confirmed the tendencies of three preceding months, though the share of *equities* therein decreased – from 32.8% to 32.3% (Chart 12).

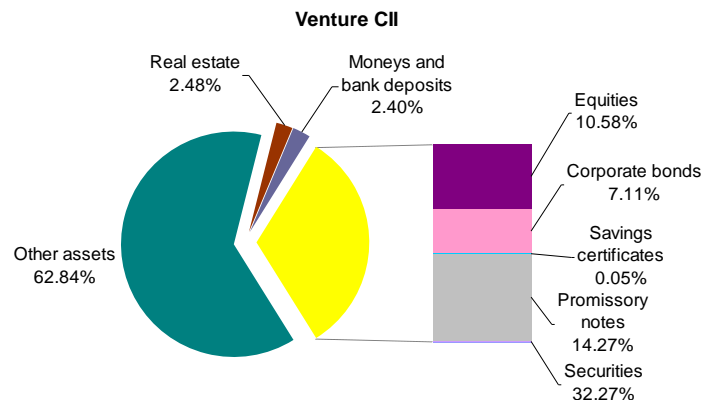


Chart 12. Venture CII asset structure as at 30.09.2012

Although stock market instruments's share within the aggregate portfolio of venture funds decreased, their aggregate value went up by UAH 575.85M (after +UAH 4 124.04M in Q2). That happened due to significantly greater investments made by the said funds into “other” assets (+UAH 3 065.13M), which increased compared to Q2 (+UAH 2 568.02M).

If considered by securities types, an increase occurred in the investments into *equities* (+UAH 658.88M) and, traditionally, *promissory notes* (+UAH 682.81M), though in both cases growth was substantially lower than during three preceding months (+UAH 1 138.19M and +UAH 3 007.44M respectively).



The key changes in the structure of the aggregate **venture CII** portfolio:

*Increase:*

- “other assets” – from 62.4% to 62.8%;
- promissory notes – from 14.2% to 14.3%;
- equities – from 10.4% to 10.6%;
- real estate – from 2.4% to 2.5%;
- moneys and bank deposits – from 2.3% to 2.4%;
- internal state loan bonds – from 0.03% to 0.05%;

*Decrease:*

- corporate bonds – from 7.8% to 7.1%;
- mortgage securities – from 0.3% to 0.2%.

Promissory notes remained **the greatest, by an aggregate value of investments thereto, group of instruments** within the aggregate portfolio of all CII as at 30.09.2012. The total value of CII investments thereto during the quarter increased by UAH 754.52M to UAH 19 119.28M, and their respective share – from 38.9% to 39.5% (Table 6).

Assets in the form of equities continued to grow, and in July-September their total growth reached UAH 1 085.80M - up to UAH 18 523.60M, or 38.3% of the aggregate CII portfolio (in Q2 – almost 37%). That was mainly due to closed-end CII, including venture ones.

The rest of security types lost in value and narrowed their shares. In particular, owing to venture CII, a decrease in the corporate bonds' component that initially had comprised UAH 10 113.68M significantly accelerated (after -UAH 64.92M in Q2). Thus, the share of these instruments within an aggregate value of the CII investment portfolio dropped from 22.2% to 20.9%.

Unlike in the preceding quarter, aggregate investments into OVDP declined (-UAH 14.66M after +UAH 131.94M) to UAH 297.58M, and, finally, their share within the aggregate securities portfolio went down from 0.7% to 0.6%. Just as in April-June, the key role here was played by closed-end CII, with exception of venture ones, as the latter, on the contrary, increased investments into government securities.

Mortgage securities used by venture funds close TOP-5, though it should be noted that in Q3 they became less popular (-UAH 155.91M). As at 30.09.2012, total investments thereto were worth UAH 226.08M, or almost 0.5% of the aggregate securities portfolio of all CII.

Table 6.

*Value breakdown of CII aggregate securities portfolio,  
by the types of instruments, as at 30.09.2012*

Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Promissory notes	19 119 280 775	39.51%
Equities	18 523 597 911	38.28%
Corporate bonds	10 113 682 592	20.90%
Internal state loan bonds (OVDP)	297 580 988	0.61%
Mortgage securities	226 084 146	0.47%
Savings certificates	68 500 000	0.14%
Treasury bonds	16 300 320	0.03%
Municipal bonds	16 284 424	0.03%
<i>Other</i>	<i>9 994 776</i>	<i>0.02%</i>
<b>Total</b>	<b>48 391 305 932</b>	<b>100.00%</b>

An increase in the value of the equity component within the consolidated portfolio of **open-ended, interval and closed-end (with exception of venture) funds** by UAH 426.92M in Q3 confirmed that this type of instruments is the top priority one among non-venture CII, though the share of investments thereto in amount UAH 4 823.51 once again narrowed – from 73.3% to 72.9% (Table 7).

That was due to a more dynamic growth of investments into other securities, particularly corporate bonds – by UAH 170.96M up to UAH 907.31M (from 12.3% to 13.7%), which happened owing to closed-end CII.



Cutting investments into government debt securities by open-ended and closed-end funds resulted in a decline of this component's share value in non-venture CII by UAH 49.32M up to UAH 228.13M, and of the share itself – from 4.6% to 3.5%.

Table 7.

Value breakdown of non-venture CII aggregate securities portfolio, by the types of instruments, as at 30.09.2012

Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	4 823 506 343	72.87%
Corporate bonds	907 314 383	13.71%
Promissory notes	644 775 199	9.74%
Internal state loan bonds (OVDP)	228 133 826	3.45%
Municipal bonds	15 015 115	0.23%
Other	809 059	0.01%
<b>Total</b>	<b>6 619 553 926</b>	<b>100.00%</b>

### 7. The Rate of Return of CII

From the viewpoint of return on investments, performance results of collective investment institutions in Q3 were moderate due to the volatility reigning in stock market trading floors at that time. *Open-ended* CII, which narrowed the share of equities to less than 27%, became most successful in mitigating the impact of indexes' fluctuations. By the average rate of return (+0.4%) they even outperformed closed-end funds (+0.3%). In the meantime, the lowest average rate of return was demonstrated by *interval* funds (-2.0%), where the equities' share remained the greatest among all CII sectors and even grew above 59% (Chart 13).

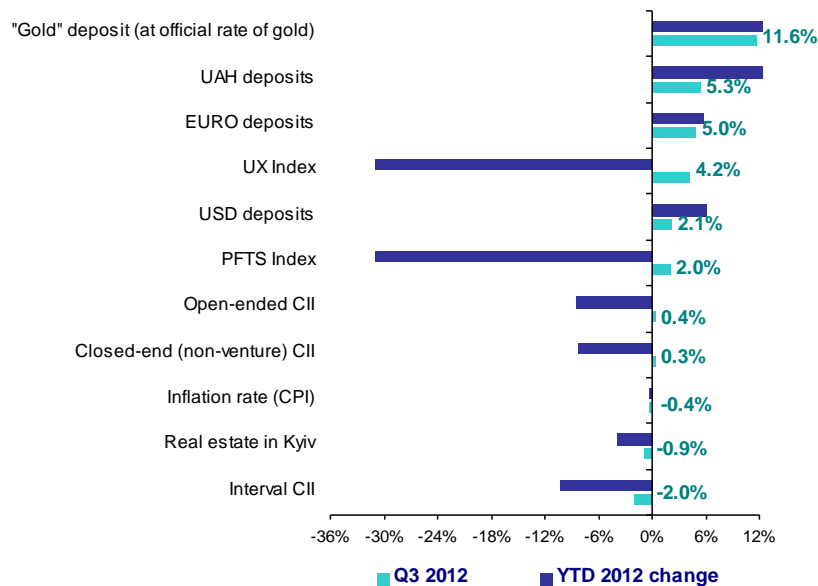


Chart. 12. Average rates of return – CII, deposits, equity indexes and inflation rate in Q3 2012 and since the beginning of 2012<sup>4</sup>

<sup>4</sup> CII rates of return are calculated based on the reporting data for Q3 2012 (40 open-ended, 34 interval and 140 closed-end CII) and Q2 2012 (38 open-ended, 35 interval and 147 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.blaqovest.ua>).



The number of funds that demonstrated securities' value growth among open-ended CII in Q3 increased to 27 out of 40 funds (after 6 out of 38 in Q2), among interval ones – to 16 out of 34 (after 7 out of 35), and among closed-end ones – to 60 out of 140 (after 47 out of 147), with one corporate fund equities' value remaining unchanged. At that, four open-ended and interval CII and 12 closed-end ones generate rates of return higher than the one on *deposits in Hryvnia* (+5.3%) and deposits in euro (+5.0%), which had been loss-making in the preceding quarter (-4.6%)<sup>5</sup>.

The range of the rates of return of open-ended CII continued narrowing and moving up – from -13.0% to +8.1%, and of interval and, particularly, closed-end ones – broadened to between -38.9% and +13.7% and between -75.1% and +98.5% respectively. Two-digit rates of return were generated by ten closed-end CII (in Q2 – six), and nine of them performed better than the rates of return on *bank deposits in gold* (+11.6%), which led by this indicator after the sinking of Q2 (-3.7%)

For nine months of 2012, average losses of CII were three time lower than PFTS and UX indexes' drop: interval funds demonstrated their securities' value decrease by 10.3%, open-ended – by 8.5%, and closed-end ones – by 8.2%.

## **8. Resume**

In Q3 2012, a sideways trend of the national stock indexes that was accompanied by volatility and unconfident growth of global peers, as well as Ukrainian stock market stagnation, relatively positively influenced the dynamics of collective investment institutions.

**In Q3 2012, Ukrainian CII market preserved unchanged its key trends**, namely: *the quantity and value of CII assets grew, primarily owing to venture funds, and capital outflow from public, in particular, open-ended CII slowed down.*

**The number of AMC** in Q3 returned to the level of Q1, and the number of registered, as well as recognized CII continued to increase. Venture funds, as well as closed-end non-diversified PIF, remained the main drivers of CII industry expansion. The rest of the sectors kept their number virtually unchanged, though per one liquidated open-ended fund there was one interval fund that reached compliance with the standards.

**The assets and NAV** of CII in Q3 grew not solely owing to venture, but to other closed-end funds as well. All in all, as at 30.09.2012, the aggregate asset value of all CII reached UAH 142 222.97M (+3.9%), of the net assets – UAH 126 703.75M (+4.9%), with the share of venture funds somewhat decreasing – up to 92.3%.

**The outflow of capital** from open-ended CII on the whole slowed down from UAH 10.6M to UAH 7.6M during the quarter, as the sector's aggregate NAV went down by UAH 6.2M. Decisive impact on such indicator as flow of investor moneys was traditionally exercised by one or two funds. At that, net inflow to several other open-ended CII grew from UAH 1.1M in Q2 to UAH 1.5M in Q3.

**The asset structure.** In the conditions of volatile market and outflow of investments, *assets in the form of equities continued to decrease.* Simultaneously, compared to Q2, investments of interval and closed-end (with exception of venture ones) CII into these securities grew, though for the latter that to a certain extent was due to an increase in the number of funds. Interval and venture funds grew investments into government bonds. In venture CII, a notable increase took place in the investments into corporate rights and loans, as well as equities and promissory notes, whilst assets in the form of mortgage securities decreased for the first time since Q4 2011.

**The investors of CII** in Q3 2012 were, just as previously, represented mainly by legal entities-residents that held already 67.6% of the NAV of funds (with exception of venture ones), and 81.4% – including venture funds. In spite of a net outflow of investments, the citizens of Ukraine remained primary investors of open-ended CII, even though their share went down to 46.9%. In the meanwhile, virtually unchanged remained the volume of national companies' investments into open-ended funds, which broadened their share to 38.2%. Investments of natural persons – residents were growing in closed-end, in particular, venture funds (1.61%, UAH 1 887.58M). The share of non-residents narrowed in all CII sectors

<sup>5</sup> It is necessary to take into consideration CII liquidity, in particular, in case of open-ended type, 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). In the meantime, CII rates of return calculated do not take into account possible commissions and other losses incurred at entering/exiting funds, as well as taxation of investment income.



(to 15.3% in aggregate), although investments of foreign companies into closed-end funds, including venture ones, increased.

**The rates of return of CII** in Q3 on the whole grew. Some funds remained in the negative zone, but the number of CII demonstrating NAV growth per one certificate or share of a fund significantly increased – from 16% to 68% among open-ended, from 20% to 47% among interval, and from 32% to 34% among closed-end ones. By average rate of return, unlike in Q2, it was also the sector of open-ended funds that led (+0.4%), where funds demonstrated much closer performance results, than among closed-end (+0.3%) and interval (-2%) funds. Average CII losses since the beginning of 2012 (between -10% in interval and to -8% in open-ended and closed-end ones) were moderately negative under conditions of stock indexes' sinking by 30-34% over that period of time.

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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