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## **1. Stock Markets: Ukraine and the World**

In 2014 **world stock markets** were subject for the various factors' influence, at that some of them experienced significant shocks: several of them - positive, the other ones – negative. Leaders and outsiders this year changed again: while the Chinese market has doubled, the Russian one - lost almost half of the value (by RTS index, which is in USA dollars) (Chart 1).

The American market was actively growing in conditions of continued gradual improvement of socio-economic indicators, particularly in the labor market, which were stimulated by the government and the Federal Reserve of the United States. During the year, key equity indexes in the USA updated records constantly. Only in the fourth quarter of 2014 there was a temporary failure associated with the completion of the Fed "quantitative easing» (QE) program's curtailing, which also disturbed investors in the markets of Europe and China.

The slowing of Chinese economy's growth was not as significant as predicted, in addition, in September 2014 there was the largest IPO in the history of the Chinese Alibaba company (online retail trade), so Chinese equities grew rapidly at the end of the year (+33.9% in the 4-th quarter of 2014, +50.9% for the whole year).

European markets during the year were suppressed by the threat of recession in the euro area, in conditions of inflation rates' falling and the threat of deflation, similar to Japan, where government and the central bank already performed their QE, following the example of the US. Germany remained to be the main engine of the region (+3.5% in Q4 2014, +2.7% per year), its economy experienced this year, which was difficult in socio-political sense, better than others, supporting moderate growth in both euro block and EU as a whole. Other key EU markets in the fourth quarter of 2014, and year 2014 as a whole, demonstrated a decline, respectively, -3.9% and -0.7% in France and -1.5% and -2.7% in the UK.

Recession continued on the Polish market: after 7% in 2013, it lost another 3.5% in 2014 and the fourth quarter was the decisive, when the Polish equities fell by 7.4%.

Russian indices were among outsiders of the year: against the background of a strong and prolonged drop in energy prices and massive capital outflows from the country, in conditions of deployment of the Russian military-political aggression in Ukraine, the RTS dollar index lost 45.2% during the year, at that 29.6% - in the 4-th quarter, and the MICEX ruble index - respectively, 7.2% and 1.0%.

**Ukrainian stock market**, in particular equity indices of domestic blue chips, for the first time since 2010 demonstrated growth (+13.5% for UX index, after -4.3% in 2013), and surpassed US equities (+9.13%



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by the DJIA /S&P indices). This happened in spite of a sharp deterioration of the economic situation in conditions of political and military conflict in the east of the country and massive capital outflows from Emerging markets, as well as from Frontier ones.

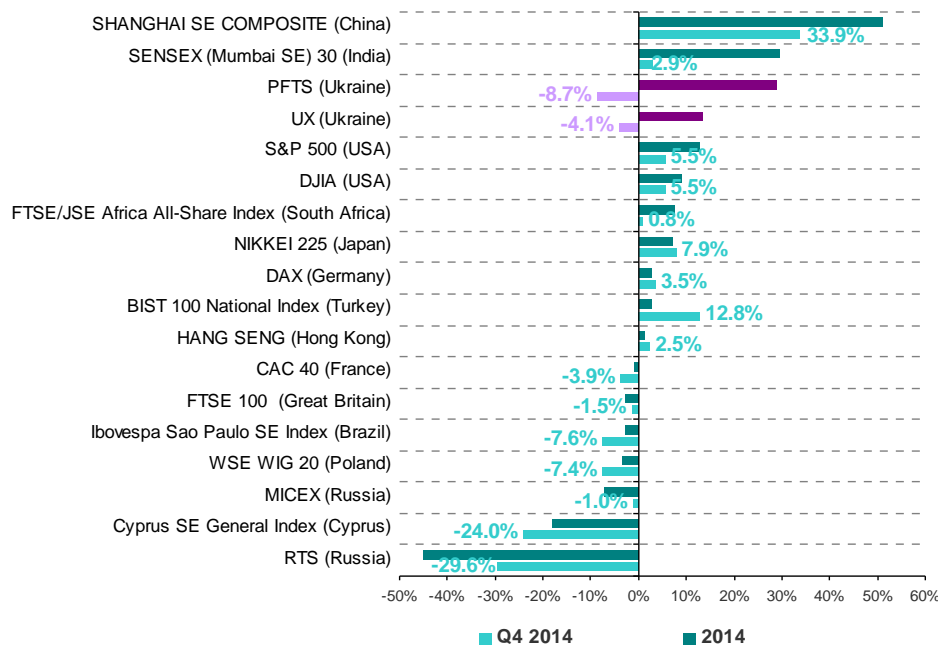


Chart 1. National markets' stock indexes' dynamics in Q4 and in 2014\*

\*Based on the data of exchanges and Bloomberg Agency.  
Ranking by annual figures; values are given for 4th quarter

In 2014 the stock market in Ukraine experienced massive changes in the socio-political landscape, accompanied by significant challenges in economic, political and regulatory aspects.

The rapid deterioration of the military-political and economic situation in the east of Ukraine in August, as well as inhibition of the necessary reforms and continuing depreciation of Hryvnia led to a drastic change in investors' moods and expectations (-12% in the 3-rd quarter, after +20% in Q2 2014 and +12 in Q1 2014 by UX index). In the 4-th quarter Ukrainian key indicator, which mostly consisted of enterprises located in distressed areas of east Ukraine, fell by another 4%. Thus, the speculative growth during the first seven months of the year provided a positive gain for the UX index in 2014, that was +13.5%.

Activity of securities' trading on the major Ukrainian stock markets in 2014 continued to grow, albeit at a much slower pace. According to SSMNC data, the total trading volume on the regulated market increased for the year by 32.6% (after +80%) and amounted to UAH 629.43 bln. At that the share in it of two out of ten stock exchanges operating in Ukraine in 2014 increased from 91% to almost 95%. Thus, on the SE "Perspectiva" it was registered almost 79% (after 67%), and on the PFTS - almost 16% (after 24%) of trading volume. However, 88% of this amount in 2014 were made as agreements with governmental bonds (OVDP) (after 74% in 2013), and the share of transactions with corporate bonds and equities fell from 10% to 5.4% and 4.2%, respectively. The volume of equities traded on the stock exchanges decreased by 41% - to UAH 26.60 bln., which, however, was higher than in 2012 (UAH 21.54 bln.) before the introduction of "excise tax" on securities' transactions outside the stock exchanges, which was canceled at the end of 2014.

Number of equities, which are on the 1st level of listing of stock exchanges, in 2014 remained minimal - 1 (in 2012 - 14). So, in 2014 the attractiveness of Ukrainian corporate securities weakened dramatically, that was caused, on the one hand, by military conflict, the deteriorating of socio-economic situation in Ukraine, a significant increase in interest rates of Ukrainian emittents' debt instruments, and, on the other hand - by inadequate control over their responsibility, that remains an urgent problem in the regulation of domestic securities' market.



## **2. Collective Investment Institutions' Performance**

### ***European context***

2014 was extremely positive for the European industry of investment funds and asset management, in particular **for public open-ended funds (UCITS)**<sup>1</sup>, operating under EU regulations. It were moderate dynamics of stock indices, record - low interest rates in the financial markets and virtually zero inflation in the euro area, complemented by expectations of further monetary policy's easing by the European Central Bank and the implementation of its program of "quantitative easing", that contributed to this. During the year, the overall dynamics in the region was rapidly rising, although there was a temporary outflow from certain categories of funds by assets' classes.

Totally, the funds of UCITS and other funds managed by European AMC (non-UCITS funds)<sup>2</sup> received for the year EUR 634 bln. (after EUR 410 bln. in 2013), including UCITS – EUR 472 bln. (after EUR 229 bln. in 2013), and their aggregate assets increased by 15.7% to more than EUR 11 341 bln. (UCITS – to EUR 7 979 bln., non-UCITS - to EUR 3 362 bln., by 16.3% and 14.3%, respectively)<sup>3</sup>.

*Bond funds* were the leaders by the annual net inflow of capital in 2014. They attracted additional EUR 25 bln. in the fourth quarter of 2014, and for the whole year – EUR 190 bln., (after +EUR 70 bln. in 2013). *Balanced funds*, that had the largest amount of moneys attracted in the previous year (+EUR 114 bln. of net inflow), in 2014 also were among the most popular funds and attracted additionally EUR 186 bln., 34 of which - in the 4-th quarter. *Equity Funds* received EUR 61 bln. of net inflow for the year (after EUR 99 bln. in 2013), at that in Q4 2014 they suffered losses amounted to EUR 3 bln. *Money market funds* were outsiders the third consecutive year, the outflow from which in 2014, however, was significantly weakened - to EUR -5 bln. (after - EUR 84 bln. in 2013) - including the losses in amount of EUR 10 bln. in the 4th quarter.

### ***Ukrainian Realities***

#### **2.1. Number of AMC, CII and Regional Distribution of Market Participants**

In 2014 a difficult and turbulent period for the Ukrainian industry of institutional investors' asset management only complicated. This particularly affected the public sector of CII, which experienced reduction both in the number of participants and amount of funds' assets under management. Number of CII declined in all categories by the types and kinds of funds.

**As of 31.12.2014 there were 336 asset management companies acting in Ukraine.** During the year the number of AMC fell steadily: new companies entered the business, but they were fewer than those that exit from the market. Industry of institutional investors' asset management in 2014 declined quantitatively by more than 3%, or by 11 AMC (in 2013 - by 6 AMC), but remained higher than on the eve of financial crisis in 2008. AMC which focused on public CII (in particular, open-ended ones), closed relatively more actively. In the 4th quarter of 2014 the number of companies decreased from 337 to 336, at that in October-December three AMC were liquidated.

As before, venture funds remained the most attractive for investors. At the end of 2014, as well as a year ago, 96% of all AMC that had CII under their management, managed at least one venture fund (although their number decreased from 318 to 310 AMC).

<sup>1</sup> UCITS (Undertakings for Collective Investment in Transferable Securities) – Collective Investment Institutions in traded securities (in regulated markets)

<sup>2</sup> According to the data of 27 countries which are members of the association EFAMA (24 EU Member States, Norway, Switzerland and Turkey) - see: <http://www.efama.org>.

<sup>3</sup> See EFAMA's [Quarterly Statistical Release \(Q4 2014 & Full Year 2014\)](#)



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The number of registered collective investment institutions in 2014 began to decline: during the year they became less by 35 funds (after rising by 60 in 2013), at that in Q4 2014 they changed from 1586 to 1569. However, this decrease was relatively lower (- 2.2%) compared with the dynamics of the number of existing AMC, the same as last year, so the concentration of CII' asset management continued to grow slowly (Chart 2).

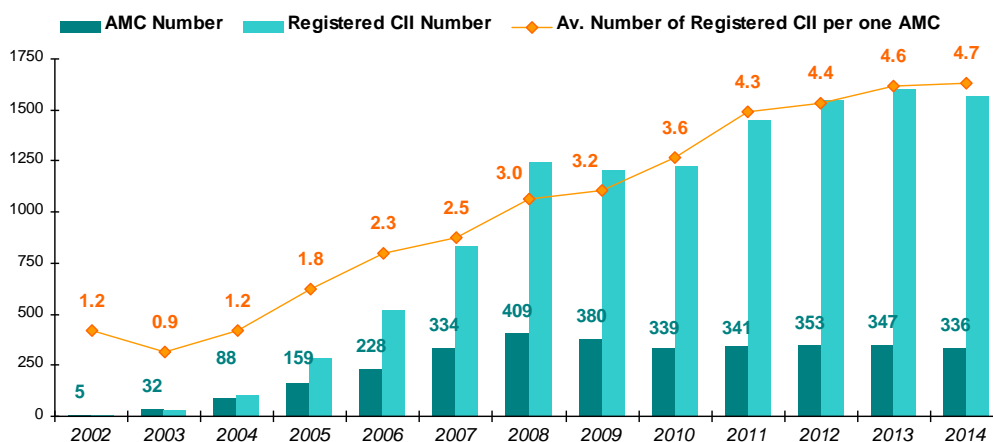


Chart 2. Dynamics of the number of AMC and CII per one AMC in 2002-2014

The number of CII that reached compliance with minimal asset volume standard in 2014 also decreased: -5% (-62 funds), including -1.6% (-19) in Q4 2014 - from 1207 to 1188 (at the beginning of the year -1250). This is a drastic change compared to the year 2013 and the first reduction in the number of recognized and acting CII (+2.3% in 2013, +8.6% in 2012) (Table. 1).

Table 1. Dynamics of the number of CII that reached compliance with the standards in Q4 and in 2014

Date / Period	Total	UIF*							CIF*		
		O*	Os*	*	s*	CD*	CNN*	CV*	*	CNN*	CV*
31.12.2013	1250	38	-	35	-	11	43	861	2	90	170
31.03.2014	1243	38	-	35	-	9	42	865	2	87	165
30.06.2014	1233	38	-	34	-	9	42	862	2	81	165
30.09.2014	1207	35	-	31	-	11	37	850	2	77	164
31.12.2014	1188	26	4	29	1	10	35	846	2	75	160
Q4 2014	-19	-5		-1		-1	-2	-4	0	-2	-4
Change**	-1.6%	-14.3%		-3.2%		-9.1%	-5.4%	-0.5%	0.0%	-2.6%	-2.4%
2014 change**	-62	-8	-	-5	-	-1	-8	-15	0	-15	-10
	-5.0%	-21.1%	-	-14.3%	-	-9.1%	-18.6%	-1.7%	0.0%	-16.7%	-5.9%

\*UIF - Unit Investment Funds, CIF - Corporate Investment Funds; O - open-ended diversified CII, Os - open-ended specialized CII (by 30.09.2014 and before - open-ended diversified ones), - interval diversified CII, Is - interval specialized CII (by 30.09.2014 and before - interval diversified ones), CD - closed-end diversified, CNN - closed-end non-diversified non-venture CII (funds), CV - closed-end venture funds.

\*\* For open-ended and interval CII - taking into account specialized ones, that before operated as opened and interval, accordingly.

**Venture funds** which were the engine of growth during all previous years, including the crisis ones, in 2014 began to close themselves more actively, and a wave of newly created CII in this category was not sufficient enough to cover by quantity the amplified outflow. In the fourth quarter the number of venture CII that reached compliance with the standards and operated at the end of the year became less - by 8 (4 unit and 4 corporate ones) - to **1006** (including **UIF -846**) - although 4 venture funds were recognized during this period.

During the whole 2014 the number of these CII decreased by 25 funds (15 UIF and 10 CIF), or by 0.8% (after +6% in 2013). Thus, about half of quantitative industry's reduction occurred in the venture sector.



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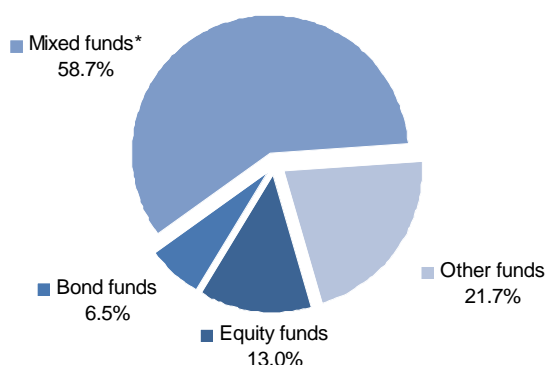
In accordance with the new Law of Ukraine "On Collective Investment Institutions", which inured on the 1st January 2014, at the end of the year several existing CII changed their classification. Thus, 4 open-ended CII became specialized open-ended funds (one bond fund and one money market fund, and two equity funds), and one interval fund – became specialized interval one (equities).

In general, **sectors of open-ended and interval** unit CII continued to narrow: taking into account the specialized funds that were reorganized from the existing open-ended and interval ones, by the results of the fourth quarter, there were less funds in these sectors by 5 and 1 respectively, and for the whole 2014 - by 8 (- 21%) and 5 (14%) funds.

Two more closed-end non-diversified UIF and CIF each, and also one closed-end diversified UIF exit the market in October-December.

**Number of diversified CII with public issue** in Q4 2014 declined from 53 to 46 funds (since the beginning of the year -16).

In accordance with the classification based on the structure of assets<sup>4</sup>, 6 *equity funds* remained at the end of 2014, but with a slightly different composition (1 open-ended, 4 interval and 1 closed-end diversified CII; at the beginning of the year - 8 equity funds). As of 31.12.2014, there were 3 *Bond Funds* (in Q3 2014 – 4, at the beginning of the year - 5); number of *mixed investment funds* increased slightly - 27 (after 26 in the 3-rd quarter, 34 at the beginning of the year). The number of "other funds", ie those that did not meet the criteria for equity, bond and mixed investment funds' classes, – by the end of the year decreased to 10 (17 in Q3 2014, 15 at the beginning of the year). In accordance with the established criteria, there were no money market funds sixth quarter in a row (Chart 3).



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

Chart 3. Diversified CII with public issue, by fund classes, as at 31.12.2014

**Within the breakdown of AMC by regions** in 2014, the share of Kyiv and Kyiv region remained almost unchanged: in spite of reduction of number of companies in the region from 245 at the beginning of the year to 238 at its end, it increased from 70.6% to 70.8% (after -2 AMC in 2013). Due to new companies' registration, the shares of Donetsk and Lviv regions increased: if the first one strengthened itself on the 4th position by the number of AMC (about 4.5% of the total amount in Ukraine), the second one took the 5-th position with an increase in the number of AMC there by one, and caught up in this way Odessa region (8 AMC in each of them, 2.4% of the market), where three companies were closed down. Other regions in the Top- 5 list remained unchanged (Kharkiv and Dnipropetrovsk), but lost their weights, also due to reducing the number of AMC in them (by -1 in each area).

The rest of the regions (including Lviv region, which last year was not included in the 5- top list), included 10.4% of all companies (in 2013 - 10.1%). Thus, the regional concentration of industry decreased

<sup>4</sup> See Rankings "Diversified Public CII – by Asset Classes" and Methodology for Ranking AMC and CII, Based on Their Performance Results on UAIB website: <http://www.uaib.com.ua>.



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slightly and at the end of the year it was more balanced in terms of the eastern and western regions. Number of AMC outside the Top- 5 regions in 2014 remained unchanged - 35 AMC.

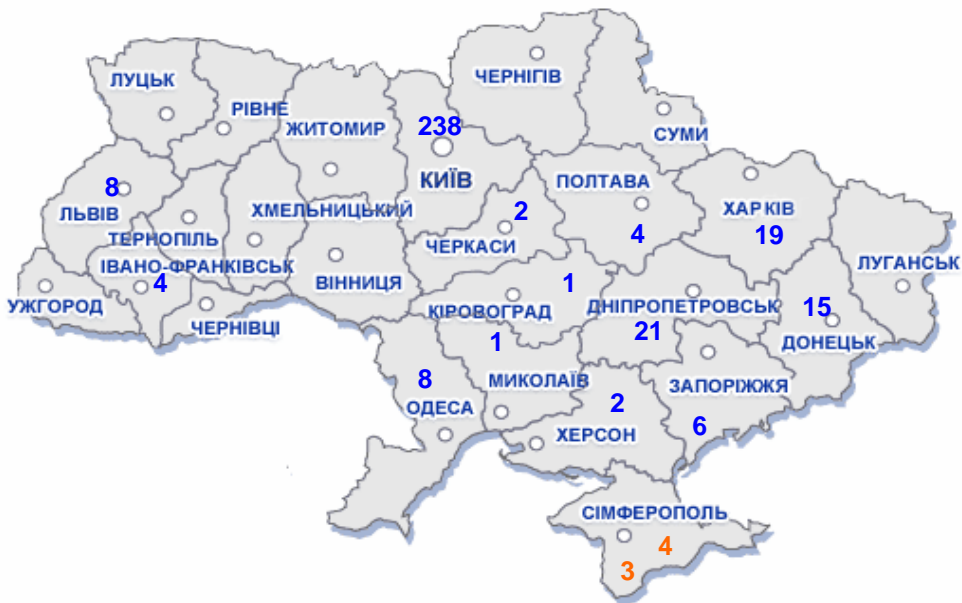


Chart 4. Regional distribution of AMC, as at 31.12.2014

Within CII breakdown by the number of funds and assets under management Kyiv region strengthened its leadership more significantly: its share by the number of CII increased from 71.3% to 72.6%, by assets - from 78.0% to 84.0%. In Odessa region volume of assets in 2014 slightly increased, although the region was out of the Top- 5 by assets under management at the end of the year; at the same time Lviv increased the indicator and approached the leaders (1% by assets, 2.3% by the number of CII). Assets in Donetsk region declined sharply in 2014 (share - from 4.8% to 1.7%), but the region remained among the top five (2.4% by the number of funds, after 3.2% in 2013) (Chart. 5).

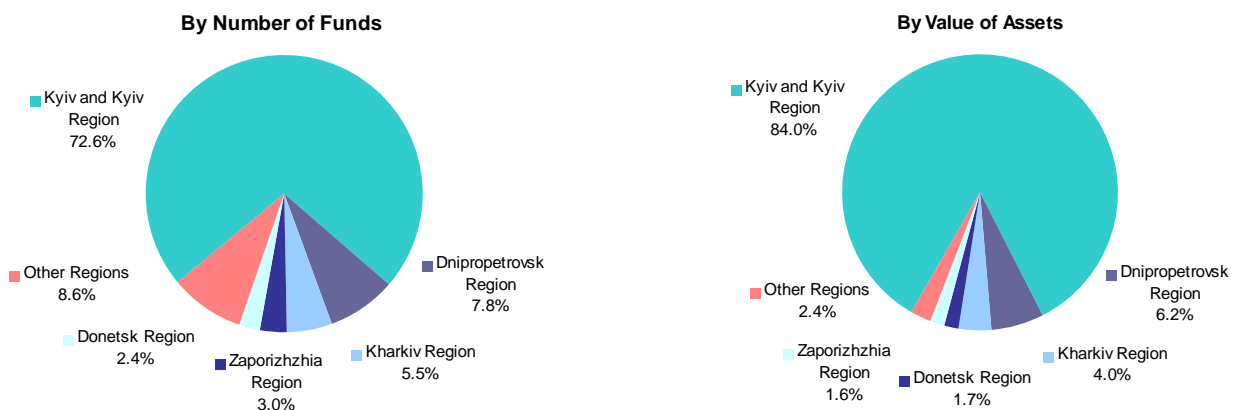


Chart 5. Regional distribution of CII by the number and the value of their assets under management , as at 31.12.2014

### **2.2. Assets and Net Assets of CII**

The rise of the stock market in the first half of 2014 somewhat supported the performance of public (non-venture) funds, which invest a significant portion of funds in the stock assets. However, the further growth of CII market continued, mainly due to much larger and more dynamic venture sector.





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The total value of CII assets under management that reached compliance with standards in 2014 increased by 16.24% (from UAH 177.52 bln. to UAH 206.36 bln.) (Chart 6). Thus, compared to the previous year, growth's rates of CII industry accelerated: in 2013 total assets of CII increased by 12.9%.



Chart 6. CII asset management market dynamics in 2004-2014

Each year (except 2011) CII assets grew faster than GDP. Finally, already in 2012, the amount of CII' assets exceeded 10% of Ukrainian GDP, and in 2014 this indicator exceeded 13% (Chart. 7). Meanwhile, the assets of European investment funds in 2014 exceeded 79% of EU's GDP.

Also, the amount of CII assets in 2014 was about 15.7% of the total assets of Ukrainian banks, and at least since 2008, each year their growth outpaced the dynamics of the banking sector - especially in 2014. Thus, starting from 2007, the relative share of CII in comparison with banks, which was then 6.8%, increased almost 2.5 times.

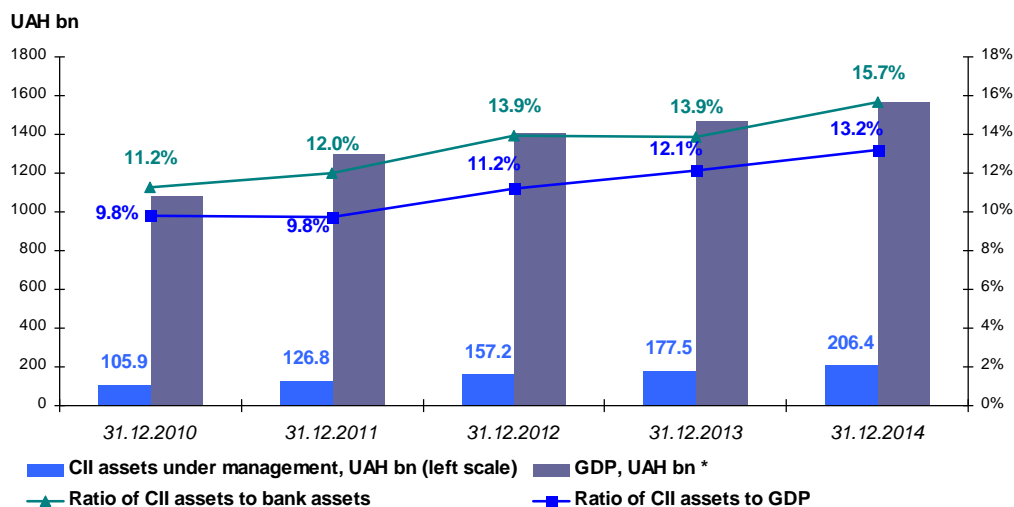


Chart 7. CII vs. GDP and the banking sector of Ukraine in 2010-2014

Assets' growth, in the 4-th quarter as well as during the year 2014 as a whole, took place in all sectors of CII, at that sector of non-venture CII grew due to closed-end funds (Chart 8). **Venture CII** increased their assets for the year from UAH 168 183.38 mln. to UAH 195 433.24 mln., or by 16.2% (after 15.3% in 2013), although in the fourth quarter their growth was moderate – by UAH 876.79 mln. (+0.5%).



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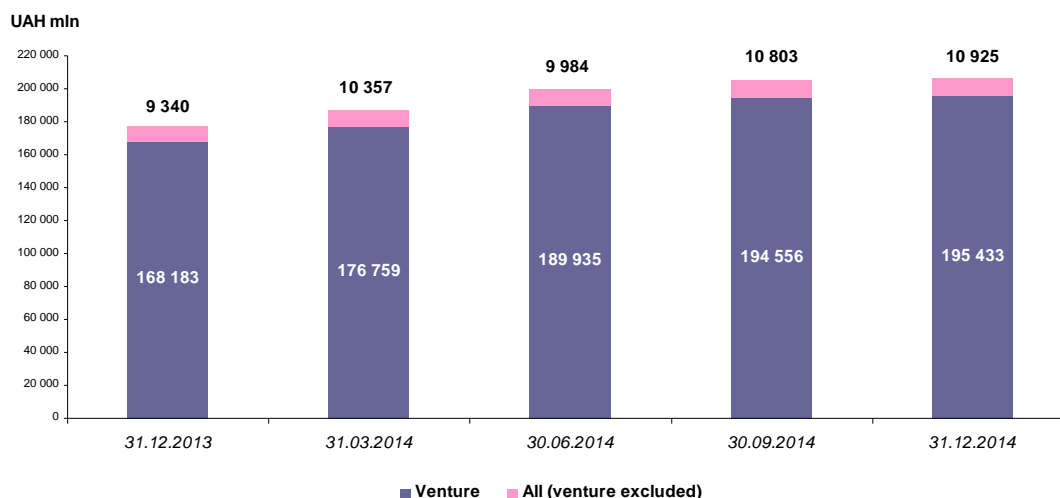


Chart 8. Asset value dynamics in 2014 – venture and non-venture CII

**Open-ended and interval CII** in October-December continued to lose assets at a significant pace (respectively, -17.2% and -7.0%, after -16.0% and -5.1% in Q3 2014). For the year these sectors decreased by 42.1% and 11.3%, respectively. However, the **assets of non-venture CII** in total, as of 31.12.2014, grew by UAH 1 585.16 mln., or 17.0% (after UAH 1 949 mln., +17.3% in 2013) – to UAH 10 924. 77 mln.

**The net asset value of all CII** in 2014 increased from UAH 158 424.47 mln. to UAH 180 404.73 mln., or by 13.9% (almost identical to 2013) (Table. 2). At that, the number of funds that submitted reports, continued to decline (from 1135 to 1067, including venture ones - from 965 to 921.)

Table 2. CII NAV dynamics in 2014, by fund types, UAH mln.

Funds	31.12.2013	31.03.2014	30.06.2014	30.09.2014	31.12.2014	Q4 2014 change	2014 change
Open-ended	103.2	93.3	85.9	72.0	60.2	-16.34%	-41.67%
Interval	122.3	123.3	122.3	115.7	107.8	-6.85%	-11.85%
Closed-end (venture excluded)	8 318.2	9 114.0	8 824.4	9 438.6	10 198.7	8.05%	22.61%
All (venture excluded)	8 543.6	9 330.6	9 032.6	9 626.2	10 366.7	7.69%	21.34%
Venture	149 880.8	156 720.4	166 610.4	170 796.9	170 038.1	-0.44%	13.45%
All (venture included)	158 424.5	166 051.0	175 643.0	180 423.1	180 404.7	-0.01%	13.87%

The aggregate NAV of CII, as well as total CII assets under management, increased, primarily due to **venture funds**, net assets of which increased by UAH 20 157.24 mln., or 13.5% (after +15.7% in 2013 and almost the same absolute indicator). Other closed-end CII grew even faster - by 22.6% (+UAH 1 880.52 mln.). As a result, the share of this sector, in particular, and non-venture funds as a whole, in CII market increased after the reduction in 2013, to 5.65% and 5.75%, respectively. So, the share of venture CII narrowed (Chart. 9).

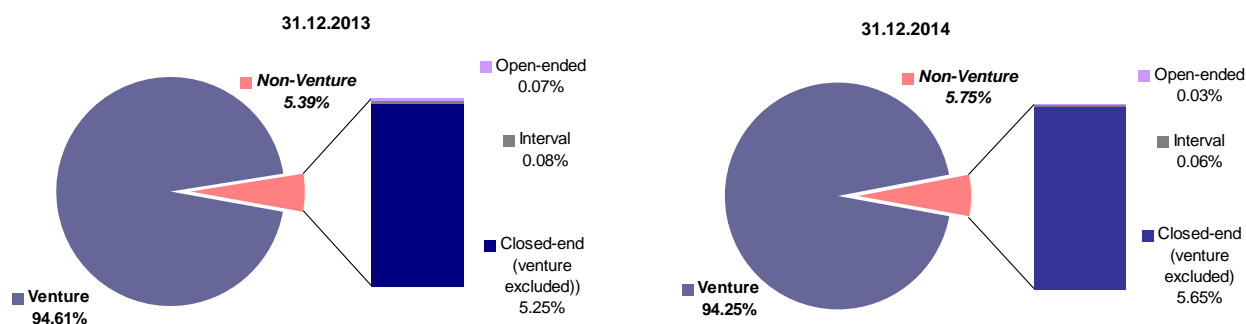


Chart 9. CII NAV breakdown in 2014, by fund types





**NAV of the open-ended CII** for the year fell by 41.7% (after -36% in 2013) - from UAH 103.20 mln. **to UAH 59.82 mln.**, of **interval** ones - by 11.9% - from UAH 122.3 mln. **to UAH 107.8 mln.** Against this background, strong growth of NAV of closed-end funds in Q4 2014 and 2014 as a whole reduced the share of open-ended and interval funds in the sector of non-venture CII, respectively, from 1.21% to 0.58% and from 1.43% to 1.04% (Chart. 10).

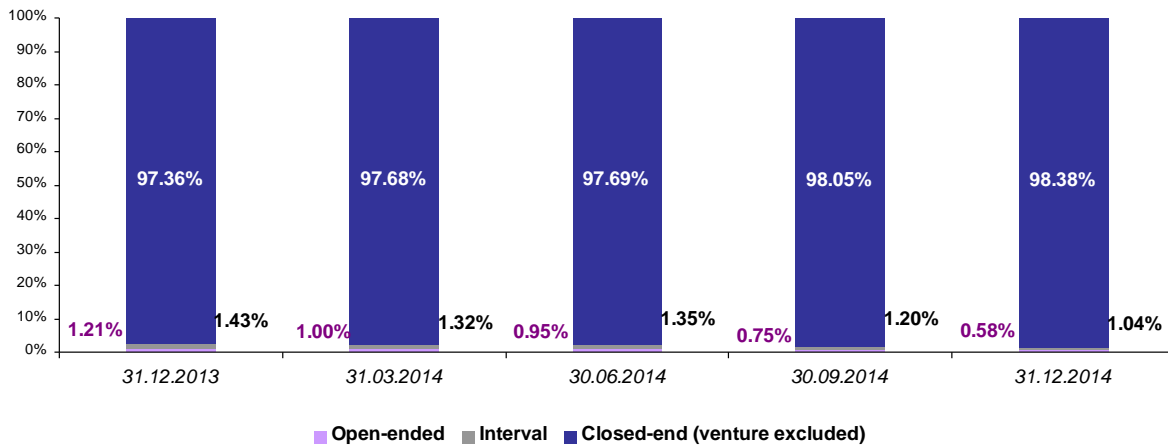


Chart 10. Non-venture CII NAV breakdown in 2014, by fund types

### **2.3. Net Flow of Capital in Open-Ended CII**

The outflow of capital from the Ukrainian market, as well as from some other "boundary" markets (Frontier Markets) and emerging markets (Emerging Markets), in 2014 continued. In CII industry public funds were affected the most by this, especially open-ended ones, several of which were closed by the end of the year. Net outflow during the year was a major factor in reducing the open-ended CII sector's value of assets, while the rise in the stock market by the end of July (+50% since the beginning of 2014) provided a positive contribution to the dynamics of open-ended, as well as other, funds.

Investors continued to withdraw money from funds against the backdrop of further narrowing the sector, lack of real positive changes in the stock market, indices' decline in August - December and deepening severe economic consequences of military operations in eastern Ukraine.

**Net capital outflows from open-ended CII in 2014** declined almost a quarter (-23%) - from – UAH 48.21 mln. to –UAH 37.18 mln. So, it continued to decline the second consecutive year (-11% in 2013). At the same time, outflow remained to be a key factor in open-ended CII' NAV decrease, at that this year its weight even increased (86%, after 84% in 2013), that was associated with a significant narrowing of the sector in previous years (ie lower base of comparison). The positive flow of capital in open-ended CII during 2014 was observed in May and December (Chart. 11, Table. 3).

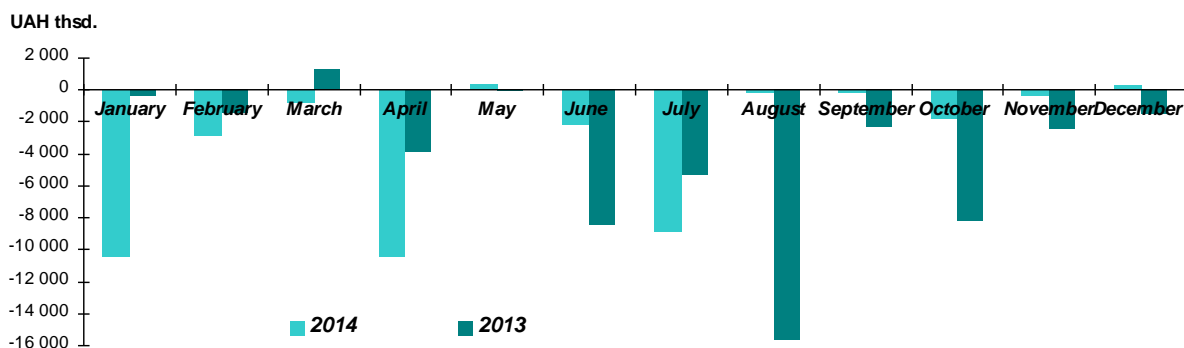


Chart 11. Monthly net inflow/outflow of capital in open-ended CII in 2013-2014 (based on daily data)



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*Table 3. Net inflow / outflow of capital in open-ended CII in 2014 (based on daily data), UAH thsd.*

Period	Net inflow/outflow			Number of funds on which data are available		
	2012	2013	2014	2012	2013	2014
January	-7 987.1	-362.8	-10 445.9	38	41	29
February	-7 952.0	-1 391.7	-2 843.8	38	41	30
March	-10 031.7	1 297.1	-803.8	38	41	30
April	-4 747.9	-3 870.1	-10 437.3	36	42	29
May	-3 322.5	-70.3	397.6	38	39	29
June	-2 579.4	-8 467.5	-2 130.1	40	39	31
July	-2 690.1	-5 268.5	-8 861.0	40	38	27
August	-3 024.8	-15 623.2	-164.7	40	36	27
September	-1 872.9	-2 359.8	-144.2	40	35	28
October	-3 333.3	-8 137.0	-1 752.6	40	33	27
November	-3 962.7	-2 444.7	-322.0	40	31	25
December	-2 531.9	-1 508.2	328.9	40	31	25
<b>Year</b>	<b>-54 036.5</b>	<b>-48 206.7</b>	<b>-37 178.8</b>	-	-	-

77% of the total outflow in the first half of 2014 took place in one open-ended fund. Two more CII were among the "leaders" in the middle of the year, when they were in the process of liquidation (they were closed in early 2015).

It is noteworthy, that in late 2014 one fund provided, though minor, but net inflow to the sector, which was almost at the same level with that in May (+UAH 0.33 mln. and +UAH 0.40 mln., respectively).

In previous years significant assets were withdrawn from open-ended CII (through redemption of funds' certificates by AMC): **net outflows during 14 consecutive quarters (starting from the 3rd quarter of 2011) resulted in losses amounted to UAH 193.86 mln.** (not taking into account changes in the moneys' value over time). It is more than 63% of sector's NAV reduction during this period.

**In the 4-th quarter net outflow of capital from open-end CII fell to – UAH 1.75 mln.** (from UAH 9.17 mln. in Q3 2014), which accounted for only 15% of quarterly NAV decrease (after 66% in Q3 2014). The largest quarterly outflow in 2014 took place in the first quarter - against aggravation of the socio-political situation in the country, annexation of the Crimea and the starting deployment of the military conflict in eastern Ukraine, but after negative flow of capital slowed (Chart. 12, 13).

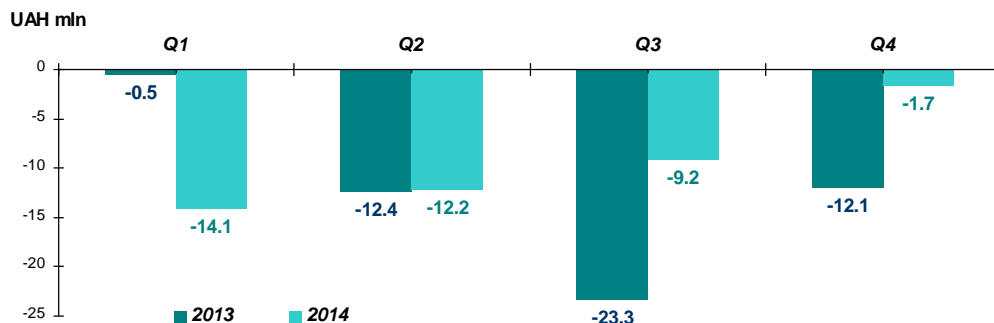


Chart 12. Net inflow / outflow of capital in open-ended CII in 2013-2014, quarterly (based on daily data)

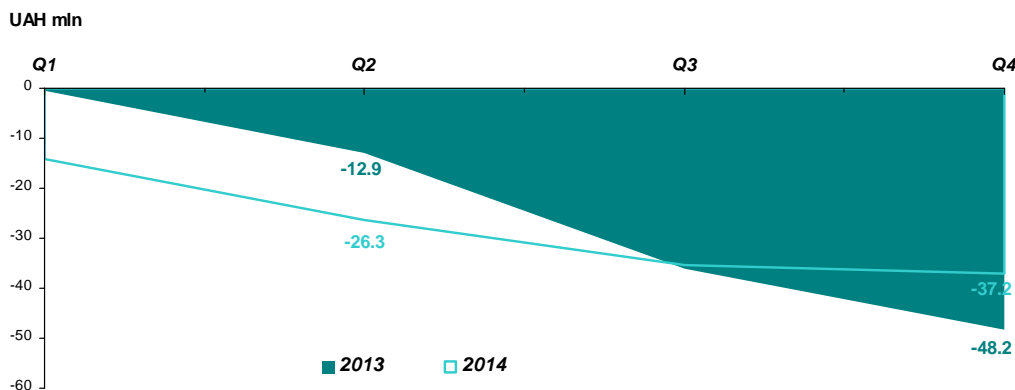


Chart 13. Net inflow / outflow of capital in open-ended CII in 2013-2014 (quarterly, accrual)



**2.4. Investors of CII**

In 2014 **legal persons-residents**, as well as before, had the primacy by the volumes of investments in CII and the amount of their aggregate assets in funds increased by UAH 14.95 bln. However, the tendency of reduction of the share of these investors in the funds' NAV continued: it has decreased this year from 77.4% to 76.2% for all CII and from 78.3% to 77.2% in venture ones (Chart 14) (in Q3 2014, these indicators were, respectively, 79.2% in all funds and 79.8% in venture ones).

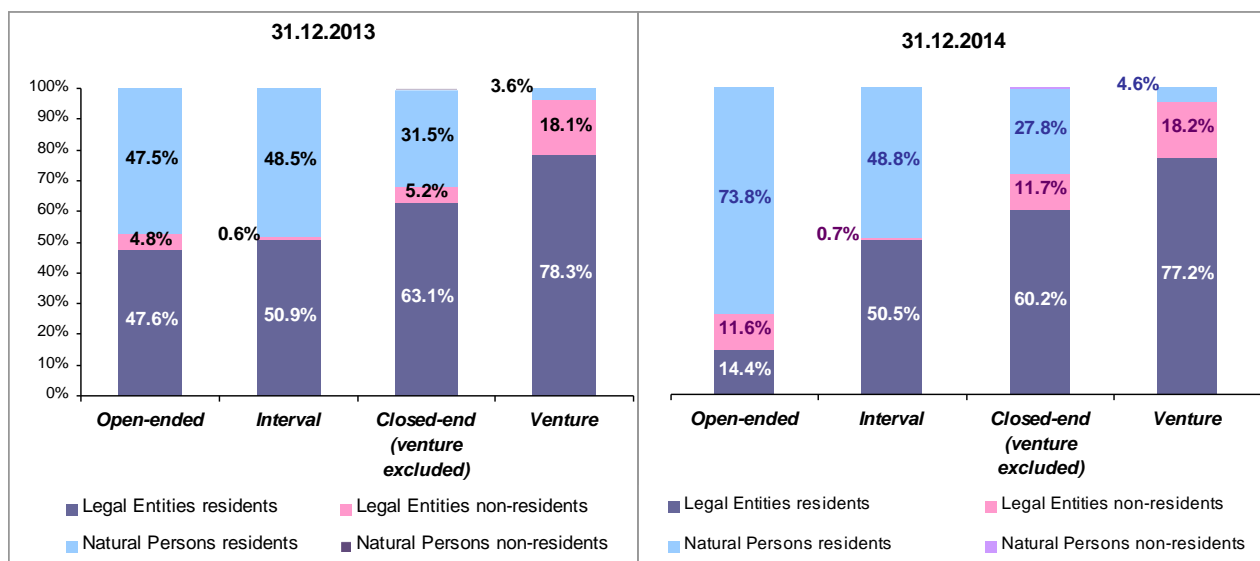
*In open-ended CII* investments of Ukrainian enterprises decreased sharply throughout the year, that, accompanied with more moderate behavior of other categories of investors in the sector, in particular increasing investments of citizens of Ukraine in the second quarter, led to a sharp decline of the Ukrainian companies' share in the funds - from 47.6% to 14.4 % (after growth in 2013). Their assets *in interval CII* for the year decreased at the same pace as of the rest of investors, that's why the share of this category in the sector remained virtually unchanged (from 50.9% to 50.5% for the year, in Q3 2014 - 52%, the most in a year).

*In closed-end non-venture funds* the share of Ukrainian legal entities continued to decline - from 63.1% to 60.2% in 2014 (after 69.4% in Q3 2014). This was caused by relatively more active increasing of the other investors' presence here, including foreign corporate investors, despite the increase of domestic enterprises' assets in the sector, equivalent to 10% of its NAV at the beginning of the year.

**Natural persons-residents**, as opposed to 2013, in 2014 not only had not reduced the amount of their funds in the CII, but instead significantly increased them (+UAH 2 629.09 mln., of which +UAH 499.95 mln. in Q4 2014). However, their interest concerned only *closed-end funds*, in particular, venture CII (+UAH 2 424.76 mln., of which +UAH 166.09 mln. in Q4 2014), where their share increased from 3.6% at the beginning to 4.6% at the end of 2014 (4.5% in the 3-d quarter).

*Value of the total investments of the Ukrainian retail investors in open-ended CII in 2014* decreased (- UAH 4.58 mln.), although in the second quarter, along with the continuation of stock indices' strong growth, it significantly increased (+UAH 3.72 mln.). In the 4th quarter a trend which began in the middle of the year, continued, and assets of Ukrainian citizens in open-ended CII decreased (-UAH 3.11 mln.). Yet, in conditions of much larger exits of legal entities from these CII, the share of natural persons -residents per year increased from 47.5% to 73.8% (66.1% in Q3 2014).

All investors- residents as of 31.12.2014 had UAH 146 898.44 mln. in all CII, including UAH 137 764.71mln. - in venture funds; non-residents – UAH 31 872.74 mln. in all CII, including UAH 30 639.81mln. – in venture ones.



*Chart 14. Investments into CII by investor categories in 2013-2014 share within NAV<sup>5</sup>*

<sup>5</sup> Without taking into account CII bearer securities in circulation.



## Analytical Review of the Asset Management Market in Ukraine Q4 2014 and the Full Year 2014 Results

Table 4. Investors of CII: the Number and Share of the Categories in the Total, as at 31.12.2014

Funds	Legal Entities				Natural Persons			
	residents		non-residents		residents		non-residents	
Open-ended	25	0.88%	5	0.18%	2 819	98.88%	2	0.07%
Interval	46	0.01%	3	0.00%	823 264	99.99%	20	0.00%
Closed-end (venture excluded)	497	9.58%	34	0.66%	4 645	89.57%	10	0.19%
<b>All (venture excluded)</b>	<b>568</b>	<b>0.07%</b>	<b>42</b>	<b>0.01%</b>	<b>830 728</b>	<b>99.92%</b>	<b>32</b>	<b>0.00%</b>
Venture	4 752	83.11%	541	9.46%	413	7.22%	12	0.21%
<b>All Funds</b>	<b>5 320</b>	<b>0.64%</b>	<b>583</b>	<b>0.07%</b>	<b>831 141</b>	<b>99.29%</b>	<b>44</b>	<b>0.01%</b>

Among the most notable changes in 2014 there were also an increase in investments and shares in CII of **foreign investors, namely, the non-resident legal entities** - in open-ended and closed-end, including venture, funds. *In open-ended CII* assets of legal entities-non-residents for the year increased by UAH 2.00 mln., in all CII – by UAH 4 573.02 mln., including UAH 3 811.35 mln. – in venture ones.

As of 31.12.2014, the foreign corporate investors owned from 0.7% in interval CII and almost 12% in open-ended and closed-end non-venture CII (growth more than doubled, compared with 2013) to 18.2% in venture ones (symbolic growth).

**Foreign citizens** in 2014 significantly increased their investments only in closed-end non-venture funds - by UAH 9.94 mln., including in the fourth quarter - by UAH 0.98 mln.

All this was accompanied by **decrease in the number of investors** in the funds, particularly in the *open-ended and venture CII*, and also in the other *closed-end* funds – due to residents of Ukraine. It was particularly significant in the 4th quarter: -111 in open-ended funds (including retail investors -104) -166 in closed-end ones (including retail -99) and -41,225 in venture ones (-41 222 corporate investors - almost exclusively due to one fund). Instead, the number of non-resident investors in the fourth quarter increased: by overall 13, at that foreign entities – by 14, including 11 in venture CII and by one in each of all other sectors of CII by types of funds.

### 2.5. Asset Structure of CII

The main component of CII assets in 2014, as well as before, were **securities** (from 53.1% in closed-end to 74.8% in interval funds) and **"other" assets**<sup>6</sup> (69.0% in venture, and 40.3% in closed-end funds). A significant part in aggregate portfolio of *open-ended CII* was held by moneys in current and deposit accounts of banks (23.1%) (Chart. 15).

Unlike 2013, due to positive indices' results in 2014, the share of funds' instruments in all sectors of CII, *except venture*, increased, especially in *open-ended CII* - from 48.1% to 65.3%. In the 4th quarter the share of securities decreased only in *interval funds* (from 77.1% to 74.8%, as of 31.12.2013 - 72.1%).

**Equities** led among the types of securities by the volume of investments in all sectors of CII the third consecutive year. Their share in the assets of all types of funds increased, and the total value as of 31.12.2014 reached UAH 34 413.21 mln. (+UAH 11 817.73 mln. for the year, +UAH 7 857.49 mln. in the 4th quarter) (Table. 5).

In the 4th quarter the share of equities in all sectors of CII increased, especially significantly - in the *open-ended and closed-end non-venture CII* (by 5-10 p.p.), although the total value of these investments for the quarter *in open-ended and interval funds* decreased (- UAH 1.10 mln. and – UAH 5.80 mln., respectively). However, the entire volume of assets in equities was reduced only *in interval CII* (-UAH 3.02 mln.), and *in venture funds* it increased by UAH 10 308.51 mln (after+UAH 2 757.0 mln. in 2013), including UAH 6 776.14 mln. – in the 4th quarter. This led to an increase of equities' share in the venture sector's assets from 11.5% to 15.2%.

<sup>6</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).



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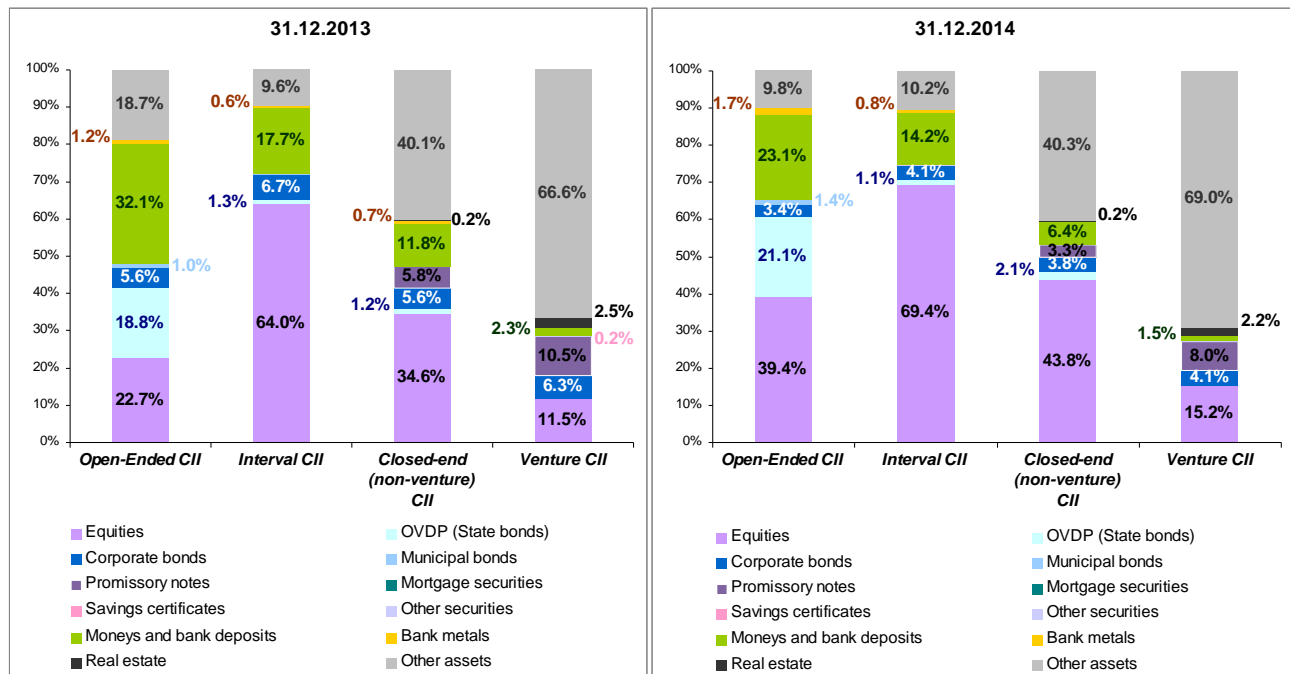


Chart 15. CII asset structure in 2014, by the types of funds

**Investments in government bonds (OVDP)** in 2014 increased only in the sectors of venture and other closed-end CII, in the fourth quarter - in venture and open –ended ones. At that, the share of OVDP in total assets for the year increased in all sectors except interval funds, in the fourth quarter - only in venture and open-ended ones (from 14.1% to 21.1% and from 0.02% to 0.05%, respectively).

In 2014, venture funds even more actively increased investments in **"other" assets** (+UAH 22 780.96 mln., after +UAH 19 287.8 mln. in 2013), however in the 4-th quarter this type of assets decreased by UAH 3 678.37 mln. And, despite this, the weight of "other" assets here increased from the beginning of the year from 66.6% to 69.0% (in the 3-rd quarter it was 71.1%).

**Moneys in banks** at the end of 2014 were the second largest section of open-ended CII' assets, but declined to 23.1% after 32.1% in 2013, although they increased their weight compared to the 3rd quarter (21.8%) due to the ten times greater reduction of sector's "other" assets (-UAH 1.98 mln., against -UAH 11.64 mln., respectively), while the multidirectional dynamics of rest sections of assets. Reducing the moneys' share in 2014 was due to the continuation of significant and almost permanent outflow from the sector.

**In the consolidated securities portfolio** of all CII at the end of 2014, **equities** grew notably and amounted to more than half of it (58.2%, after 42.9% in 2013 and 49.3% in Q3 2014). The leading role in this was played by venture funds.

Table 5. Aggregate securities portfolio of CII, by the types of securities, in 2013-2014

Security type	Aggregate value of the security in CII portfolios, UAH		2014 change		Share in the aggregate CII securities portfolio	
	31.12.2013	31.12.2014	UAH	%	31.12.2013	31.12.2014
Equities	22 595 479 400	34 413 210 916	11 817 731 515	52.30%	42.91%	58.19%
Promissory notes	18 180 609 233	15 909 514 153	-2 271 095 080	-12.49%	34.52%	26.90%
Corporate bonds	11 165 820 401	8 382 438 085	-2 783 382 317	-24.93%	21.20%	14.17%
Internal state loan bonds (OVDP)	148 613 827	330 909 562	182 295 735	122.66%	0.28%	0.56%
Derivatives	110 192 965	78 036 168	-32 156 797	-29.18%	0.21%	0.13%
Mortgage securities	88 328 417	21 941 364	-66 387 052	-75.16%	0.17%	0.04%
Municipal bonds	1 156 728	820 317	-336 411	-29.08%	0.00%	0.00%
Savings certificates	363 113 766	0	-363 113 766	-100.00%	0.69%	0.00%
Treasury bonds	9 319 154	0	-9 319 154	-100.00%	0.02%	0.00%
<b>Total</b>	<b>52 662 633 891</b>	<b>59 136 870 564</b>	<b>6 474 236 674</b>	<b>12.29%</b>	<b>100.00%</b>	<b>100.00%</b>



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*In securities portfolio of non-venture CII* in 2014, equities almost overcame the losses of 2013 by increasing their total value by UAH 1 509.22 mln., that led to increasing of their share in the aggregate portfolio of these funds from 73.4% to 82.6% (Table. 6).

*Table 6. Aggregate securities portfolio of Non-venture CII, by the types of securities, in 2013-2014*

Security type	Aggregate value of the security in CII portfolios, UAH		2014 change		Share in the aggregate CII securities portfolio	
	31.12.2013	31.12.2014	UAH	%	31.12.2013	31.12.2014
Equities	3 272 429 266	4 781 648 278	1 509 219 012	46.12%	73.39%	82.56%
Corporate bonds	523 015 734	413 526 834	-109 488 900	-20.93%	11.73%	7.14%
Promissory notes	529 435 060	354 042 254	-175 392 805	-33.13%	11.87%	6.11%
OVDP	131 247 055	241 706 418	110 459 363	84.16%	2.94%	4.17%
Municipal bonds	1 156 728	820 317	-336 411	-29.08%	0.03%	0.01%
Others	1 573 858	0	-1 573 858	-100.00%	0.04%	0.00%
<b>Total</b>	<b>4 458 857 701</b>	<b>5 791 744 101</b>	<b>1 332 886 400</b>	<b>29.89%</b>	<b>100.00%</b>	<b>100.00%</b>

*Diversified CII* in 2014 saved the breakdown of positions among the types of securities in the portfolio, where equities were the confident leader (86.2%, after 76.7% in 2013, 84.2% in the 3-rd quarter). A small gap between OVDP and corporate bonds increased for the year in conditions of latter's larger reduction in the sector (-UAH 14.24 mln., against - UAH 9.06 mln.). Finally, government securities as of 31.12.2014 constituted 1.1% of the stock portfolio, and corporate bonds - much less than 1% (Table. 7).

*Table 7. Aggregate securities portfolio of Diversified CII, by the types of securities, in 2013-2014*

Security type	Aggregate value of the security in CII portfolios, UAH		2014 change		Share in the aggregate CII securities portfolio	
	31.12.2013	31.12.2014	UAH	%	31.12.2013	31.12.2014
Equities	662 292 227	862 543 789	200 251 561	30.24%	76.69%	86.23%
Promissory notes	156 549 232	116 604 689	-39 944 543	-25.52%	18.13%	11.66%
OVDP	21 888 051	12 831 242	-9 056 809	-41.38%	2.53%	1.28%
Corporate bonds	21 728 185	7 491 641	-14 236 544	-65.52%	2.52%	0.75%
Municipal bonds	1 111 333	820 317	-291 016	-26.19%	0.13%	0.08%
<b>Total</b>	<b>863 569 028</b>	<b>1 000 291 677</b>	<b>136 722 649</b>	<b>15.83%</b>	<b>100.00%</b>	<b>100.00%</b>

### **2.6. Rates of Return: CII and Other Investment Instruments**

The rise in the stock market of Ukraine during the first seven months of 2014 helped to increase profitability of CII, but its impact was limited because of the outflow from the funds (of open-ended type).

The range of **open-ended CII results in 2014**<sup>7</sup> varied from **-15.2% to +58.6%** (from -13.8% to 68.7% in 2013), and the **average income** for them more than tripled compared to year 2013 - up to **+14.2%** (in 2013, for 30 open-end funds, acting during the whole 2013, it amounted to +4.2%). Growth of investments in 2014 was provided by 2/3 of these CII (after 13 of 30, or 43% in 2013). At that, one third (8) of funds of this type were more profitable than deposits in Hryvnia, 5 - at least offset inflation, 11 - were ahead of the UX index (Chart. 16).

The annual average rate of return in the sector of **interval CII was +1.6%** (after 7.0% in 2013), and particular results were in the range from **-20.0% to +44.7%** (-4.4% to +25.6% in 2013). Positive results were provided, as well as in 2013, by 42% of these funds (10 of 24).

**Closed-end CII (except venture ones) in 2014 brought an average of +26.6%** (after +16.2% in 2013). Investment growth was provided by 52% of these CII (in 2013 - 47%).

<sup>7</sup> CII rates of return are calculated based on the annual reporting data; as of 31.12.2014 there were data on 24 open-ended, 24 interval, 84 closed-end CII (2 closed-end CII with the largest and the lowest rates of return are not included in the calculation because of their significant deviations) – See. [CII Rankings by the Types of Funds and CII \(public diversified\) by the Classes of Funds.](#)





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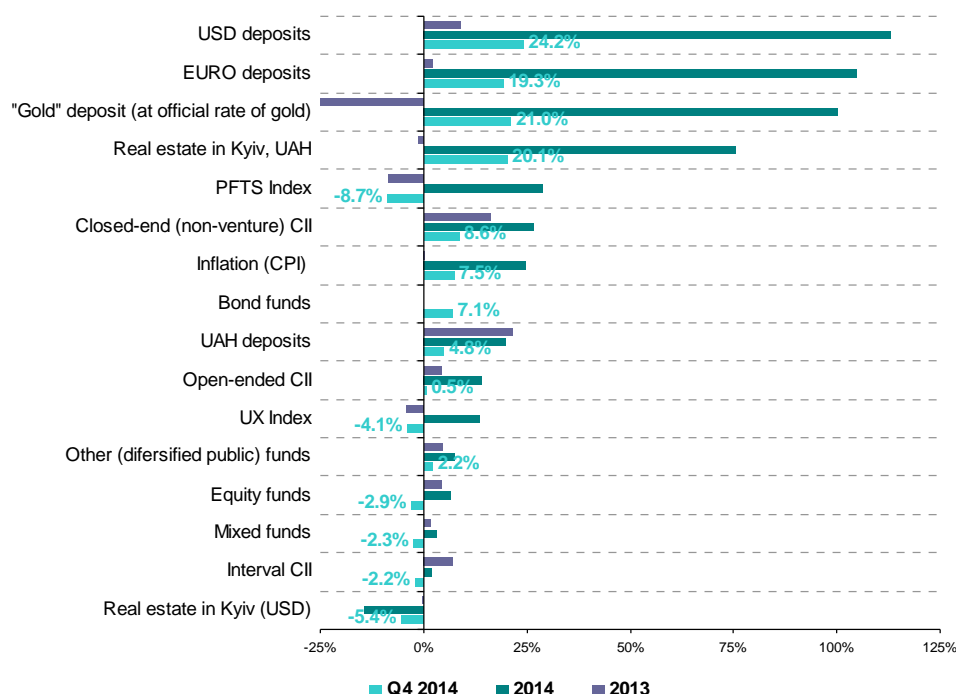


Chart 16. Rates of return – CII, deposits, equity indexes and inflation in Q4 and in 2013-2014<sup>8</sup>  
Ranking by the annual 2014 rate, figures are given for the Q4 2014

Annual deposits in foreign currency and in gold were the undisputed leaders by yield in 2014. The latter, after losses in 2013 at level -24.9%, in 2014 brought an average more than 100%. Deposits in USA dollars (+113.6%, after +8.89% in 2013) and in euros (+104.9% after +2.1 in 2013%)<sup>9</sup> had the highest yield.

Among diversified CII with public issue by classes of assets in 2014 leaders by the rate of return were equity funds (+6.4%) and other funds (+7.5%).

Bond funds (+7.1%) were the most profitable among these CII in the fourth quarter. Overall, in the last three months of 2014 deposits in USA dollars (+24.2%) and in Euro (+19.3%), "gold" deposits (+21.0%) and residential real estate in the capital (+20.1% in Hryvnia ) provided the highest income. The most successful open-ended CII showed growth in the value of the certificates for the quarter by 10.0%.

### 3. NPF Asset Management Market Performance

Industry of NPF Asset Management<sup>10</sup> in 2014 demonstrated positive results – a certain rise in the stock market in the first half of the year contributed to assets' increase.

However, reduction in number of funds under management continued - by 2.3% in 2014 (from 76 to 74 NPF) – due to closing of 2 open pension funds. Also as of 31.12.2014 there were 8 corporate and 7 professional NPF under AMC management– as well as at the beginning of the year (Table. 8, Chart. 17). At the same time, the number of companies that manage NPF in 2014 decreased by 6.5% (from 46 to 43).

<sup>8</sup> CII rates of return are calculated based on the reported annual data; open-ended CII in Q4 2014 (end of the year) - 24 funds, in 2013 - 30 funds. Inflation is provided according to the State Statistics Service of Ukraine (consumer price index for goods and services in 2014 (on December of the previous year)). Return on real estate in the USA dollars is calculated as the average of data on property values in Kiev portals: <http://www.domik.net>, <http://100reality.ua>, <http://realt.ua>; in hryvnia - according to the portal: <http://100reality.ua>.

<sup>9</sup> For an adequate comparison of rates of return it is necessary to take into consideration the liquidity of CII, in particular of open-ended type, which allow to exit from investments on any working day without losing returns, unlike in case of bank deposits, the prevailing majority of which envisage re-calculation of interest income in case of an early release of moneys based on the rate of return on current accounts (on average 2.8% per annum) In the meantime, the rates of return calculated do not take into account possible commissions and other costs incurred at entry to/exit from funds, as well as investment profit taxation.

<sup>10</sup> Excluding the corporate pension fund of NBU.



## Analytical Review of the Asset Management Market in Ukraine Q4 2014 and the Full Year 2014 Results

Table 8. Number of NPF under AMC management in Q4 and in 2014, by fund types

NPF type	31.12.2013	30.09.2014	31.12.2014	Q4 2014 change	2014 change
Open	61	58	59	1.72%	-3.28%
Corporate	8	8	8	0.00%	0.00%
Professional	7	7	7	0.00%	0.00%
<b>Total</b>	<b>76</b>	<b>73</b>	<b>74</b>	<b>1.37%</b>	<b>-2.63%</b>

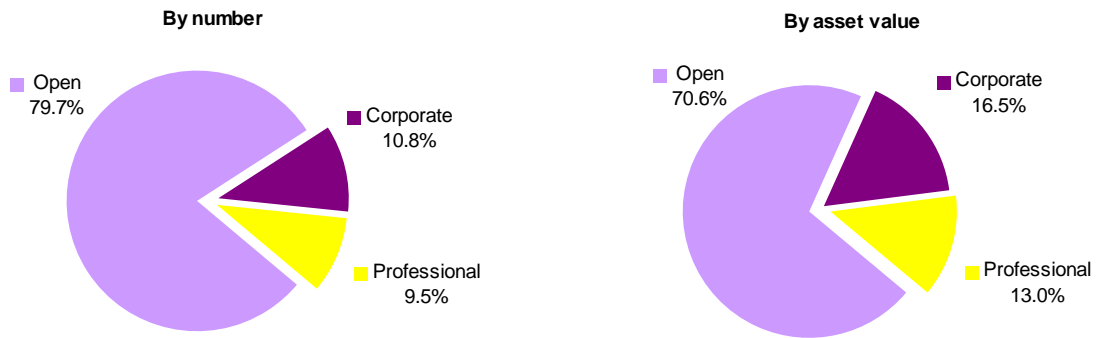


Chart. 17. Breakdown of NPF quantity and their asset value under AMC management, by the types of funds, as at 31.12.2014

**Value of NPF assets under AMC management in 2014 increased by 15.6%** (from UAH 791.8 mln. to **UAH 838.8 mln.**), after a decrease by 6.3% in 2013 (Chart.18).

**For the fourth quarter of 2014 they increased by 5.9%**, at that assets under management of corporate NPF - by 17.9% (Table. 9).

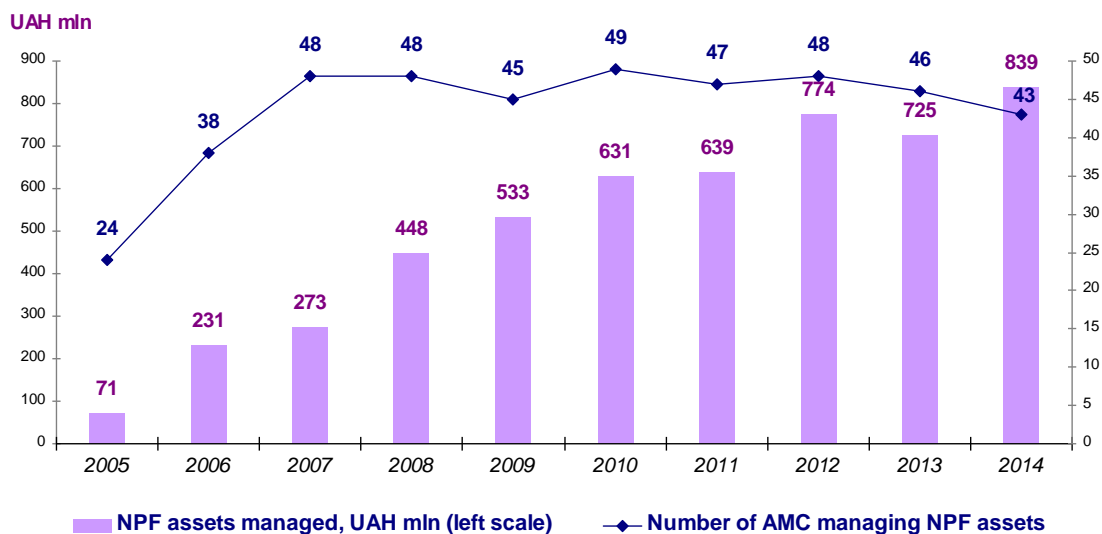


Chart 18. Dynamics of NPF asset management market in 2005-2014

The main driver of this growth traditionally was the largest sector – **open NPF (+16.7%, +UAH 84.56 mln.)**, which retained their market share by the end of 2014: about **80% by the number of funds**, although two funds left the market, and over 70% of **NPF assets under AMC management (UAH 591.98 mln.)**. This almost offset the losses of 2013 (-UAH 90.88 mln., -15.2%) (Table. 9).



## Analytical Review of the Asset Management Market in Ukraine Q4 2014 and the Full Year 2014 Results

Table 9. NPF Assets under management in Q4 and in 2014, by fund types

NPF type	31.12.2013		30.09.2014		31.12.2014		Q4 2014 AuM change	2014 AuM change
	Assets, UAH	Number of NPF reported	Assets, UAH	Number of NPF reported	Assets, UAH	Number of NPF reported		
Open	507 421 072	60	568 530 941	58	591 982 424	58	4.12%	16.66%
Corporate	121 304 708	8	117 100 101	8	138 107 602	7	17.94%	13.85%
Professional	96 717 809	7	106 195 842	7	108 750 786	7	2.41%	12.44%
<b>Total</b>	<b>725 443 589</b>	<b>75</b>	<b>791 826 884</b>	<b>73</b>	<b>838 840 812</b>	<b>72</b>	<b>5.94%</b>	<b>15.63%</b>

**Corporate NPF assets** were insignificant behind by the pace of growth (+13.9%, +UAH 16.80 mln., after +2.8%% in 2013), which reached **UAH 138.11 mln.**, and **professional NPF (+12.4%, after +18.1 %) - up to UAH 108.8 mln.**

Corporate NPF were **the largest by average volume of assets under management** in 2014 (an average size of the fund – UAH 19.73 mln. as of 31.12.2014, UAH 15.16 mln. a year ago). An average volume of assets under management of open NPF at the end of 2014 was the smallest, but also significantly increased over the year (from UAH 8.46 to UAH 10.21 mln.) .

In the **structure of NPF assets** in 2014 the share of **securities** grew from 49.2% to 57.0% (from 56.2% in the 3-rd quarter), and the share of moneys in banks, instead, decreased (from 44.5% to 37.9%) (Chart. 19) .

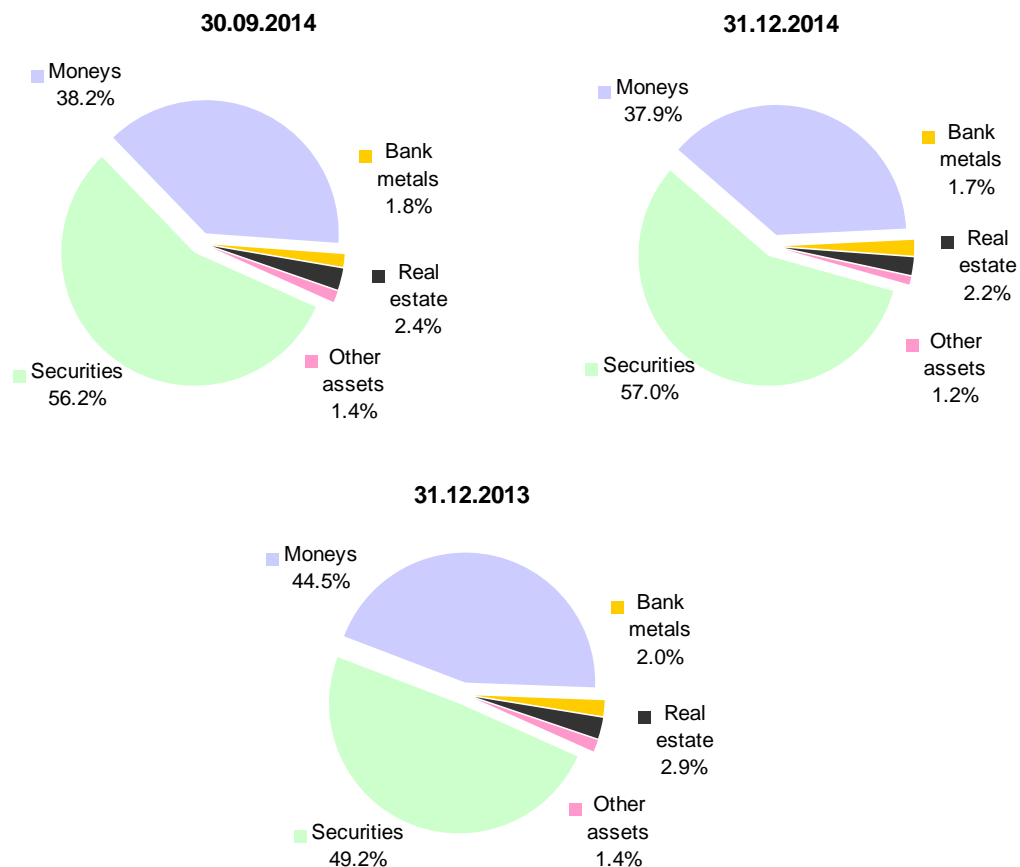


Chart 19. Dynamics of NPF aggregate portfolio structure in Q4 and in 2014



## Analytical Review of the Asset Management Market in Ukraine Q4 2014 and the Full Year 2014 Results

Dynamics of the stock market contributed to this: **assets in securities increased during the year by UAH 120.67 mln., including UAH 32.65 mln. - in the 4th quarter** (after –UAH 62.1 mln. in 2013).

The sector of open NPF had, naturally, the largest increase - by UAH 87.79 mln. for the year, including UAH 29.21 mln. in the 4th quarter (after reduction by UAH 62.1 mln. in 2013), to UAH 330.37 mln. (Table. 10).

Unlike 2013, in 2014 **NPFs' moneys at bank accounts** decreased, although it was influenced mainly by the dynamics of only professional NPF (-UAH 13.83 mln.).

However, sector of open NPF demonstrated reducing of the most liquid assets under management in the fourth quarter (- UAH 4.81 mln.), while their increasing in corporate NPF by UAH 19.52 mln. provided the total moneys' increase by UAH 14.83 mln. for the quarter in all NPF under management in total. It also allowed to reduce the annual outflow to –UAH 5.53 mln. (after +UAH 37.5 mln. in 2013).

There were no real estate in corporate funds, bank metals - in professional ones, thus there were no changes for these assets in 2014.

Table 10. NPF AuM' Structure as at 31.12.2014, by fund types, UAH mln

NPF type	Securities	Moneys	Bank metals	Real estate	Other assets
Open	330 365 337	229 555 050	12 577 627	13 656 051	5 828 359
Corporate	68 104 346	67 325 438	1 968 808	0	709 011
Professional	79 261 654	20 638 193	0	5 050 939	3 800 000
<b>Total</b>	<b>477 731 337</b>	<b>317 518 681</b>	<b>14 546 435</b>	<b>18 706 990</b>	<b>10 337 370</b>

A significant reduction of assets in banks, together with the increase of assets in securities by professional NPF in 2014 led to the fact, that share of the latter in the aggregate portfolio of this funds' sector almost returned to the level of 2012 (73.8%) – it increased from 55.7% to 72.9%. By this indicator professional NPF again were considerably ahead of other sectors of pension funds.

In open NPF share of securities in 2014 increased from 47.8% to 55.8%, and in corporate ones - slightly decreased (from 50.0% to 49.3%) - on the background of a slightly larger increase of moneys.

The share of moneys in 2014 decreased only in professional NPF, where before it was also the smallest one (from 35.6% to 19.0%). In open pension funds it also fell - from 45.2% to 38.8%, in corporate ones - remained almost unchanged for the year - 48.7% (Chart. 20).

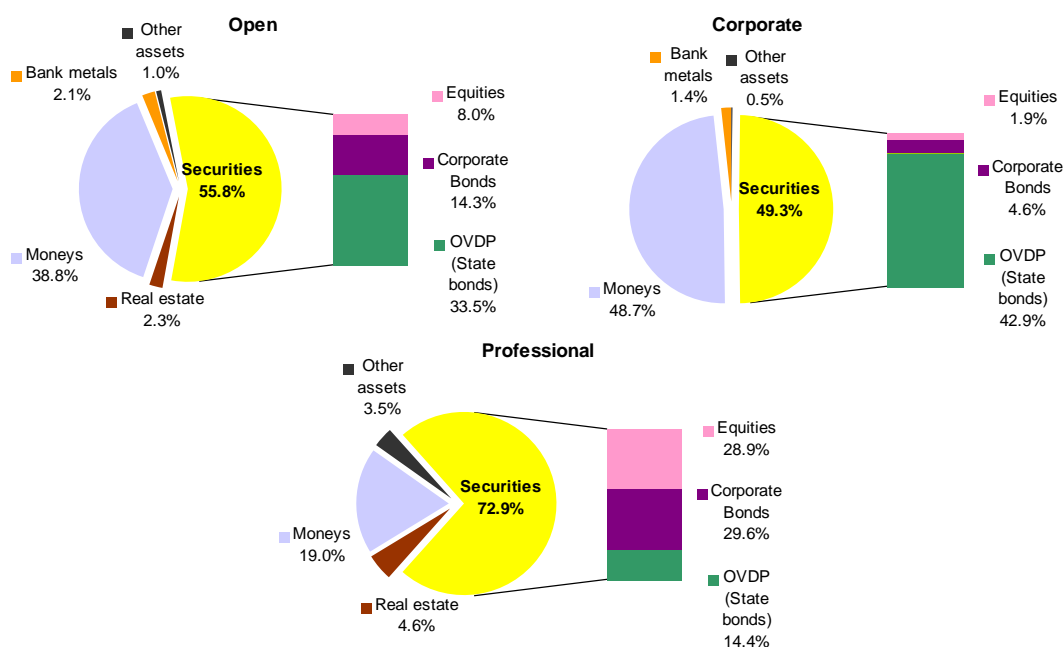


Chart 20. NPF AuM' Structure, by fund types, as at 31.12.2014



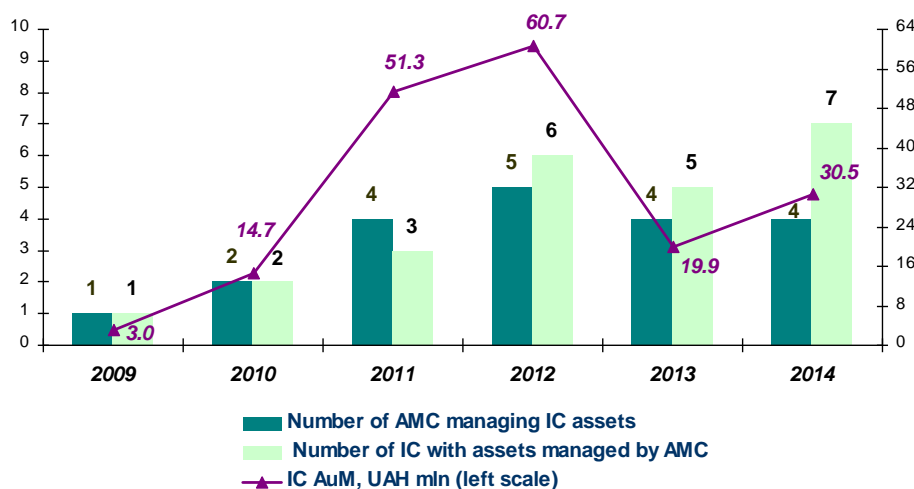
#### **4. Insurance Companies' Asset Management Market Performance**

In 2014 some recovery also took place in development of the insurance companies' (IC) asset management. Thus, for the year **the number of IC that transferred their assets under management increased from 5 to 7**, and the number of AMC that were involved in this line of business, remained 4 (Table. 11).

At that **IC assets under management increased by more than half - by 53.2%** (after reduction by 67.2% in 2013), and as of 31.12.2014 comprised **UAH 30.5 mln.** (Chart. 21).

*Table 11. Insurance companies' AuM as at 31.12.2014, UAH mln*

Number of IC managed by AMC		Number of AMC managing IC		IC AuM, UAH mln	
31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014
5	7	4	4	19.9	30.5



*Chart 21. Dynamics of the IC asset management market in 2009-2014*

#### **5. Problematic Aspects of the Asset Management in 2014**

The challenges of 2014 for asset management industry were: general turbulence in the stock market during the year, four government's attempts to introduce an additional tax for CII and actually imply for them the general system of taxation, which is in contrary to international practice and undermines the economic sense of investing in the economy through investment funds. Many of the problems encountered by businesses were caused by annexation of Crimea, military-political conflict in the east of Ukraine and its consequences such as a recession (downturn in economy), in particular - banking crisis. Considerable losses were caused by damage, destruction or total elimination of tangible assets and termination of securities' circulation by emitents located in the ATO zone.

**At the end of February 2014** in CII and NPF portfolios there were Crimean assets of almost **UAH 462 mln. (including UAH 362 mln in securities)** (Table. 12).

These troubled assets accounted for only 0.2% of total CII assets, while the figure for NPF was much greater – totally 1.7%, and for some funds the share of assets with registration in the ARC reached 57%.

During the year, due to annexation of the Crimea and the recognition of the ARC and Sevastopol City as occupied territory, AMC had to get rid of the Crimean assets and / or significantly revalue their values, so **at the end of November 2014** the aggregate portfolio of Crimean emitents **decreased twice** and made about **UAH 180 mln.** (including more than UAH 172 mln. in CII).



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Table 12. Assets in CII and NPF portfolios, registered in AR Crimea and Sevastopol city, as at 28.02.2014

Asset Type	CII Assets, UAH	NPF Assets, UAH	CII and NPF total, UAH
Securities	349 220 634	13 044 190	362 264 824
Real estate	10 191 548	0	10 191 548
Moneys	0	12 330	12 330
Other investments	54 179 046	0	54 179 046
Debitors	34 846 713	362 688	35 209 401
<b>Total</b>	<b>448 437 940</b>	<b>13 419 208</b>	<b>461 857 148</b>

In 2014 **the volume of assets registered (located) in the area of ATO in CII's and NPFs' portfolios generally decreased almost three times** (in NPF – by 10%) - **to UAH 52.66 mln.** (including UAH 47.57 mln. in CII) (Table 13). At that the number of securities' issues with "residence" in the area of ATO in the fund's portfolios practically had no changes during this time.

Table 13. Assets in CII and NPF portfolios, registered in the Eastern Ukraine ("ATO"/conflict area)

CII Assets, UAH		NPF Assets, UAH		CII and NPF total, UAH	
31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014
147 415 819	<b>47 566 286</b>	5 689 316	<b>5 093 134</b>	153 105 135	<b>52 659 421</b>

As of 31.01.2015, **the accounts and financial instruments of the Ukrainian Banks, in which the liquidation procedure was opened, held UAH 438.15 mln.** of CII and NPF assets, including UAH 60.37 mln. in deposits, almost UAH 14 mln. in current accounts, UAH 5.64 mln. in bank equities and UAH 358.06 mln. in bank metals.

82% of these assets belonged to non - venture CII, although among deposits - 97% - to venture ones, among assets in current accounts and bank equities - almost 100%. The share of troubled banks' assets in total assets of CII in banks was 11.6%, and in the total aggregate CII assets - 0.2%. For NPF, these figures amounted, respectively, 3% and 1.4%.

Table 14. Assets of CII and NPF in banks, which are under liquidation procedure,<sup>11</sup> as at 31.01.2015

Funds/Types of Assets, UAH	Bank Deposits	Current Accounts	Bank Bonds	Bank Equities	Bank Metals	Total
Open-ended				6 306		6 306
Interval						0
Closed-end (non-venture)	2 094 900	7 230	95 507	52 839	346 343 100	348 593 577
<i>All CII (venture excluded)</i>	<i>2 094 900</i>	<i>7 230</i>	<i>95 507</i>	<i>59 145</i>	<i>346 343 100</i>	<i>348 599 883</i>
Venture	58 271 983	13 979 874		5 567 308		77 819 165
<b>ALL CII</b>	<b>60 366 883</b>	<b>13 987 105</b>	<b>95 507</b>	<b>5 626 453</b>	<b>346 343 100</b>	<b>426 419 049</b>
<b>NPF</b>	<b>5 444</b>	<b>158</b>		<b>13 100</b>	<b>11 713 597</b>	<b>11 732 299</b>
<b>CII and NPF</b>	<b>60 372 327</b>	<b>13 987 263</b>	<b>95 507</b>	<b>5 639 553</b>	<b>358 056 698</b>	<b>438 151 348</b>

Even as of 31.08.2014 troubled banks' assets accounted for about **UAH 93 mln.** Almost all of these assets were owned by venture CII. Thus, the amount of assets in accounts and securities of the banks which are in the liquidation process, in CII assets, increased 4.7 times during five months.

<sup>11</sup> According to the NBU data as of 05.03.2015: [http://www.bank.gov.ua/control/uk/publish/article?art\\_id=75473&cat\\_id=40259](http://www.bank.gov.ua/control/uk/publish/article?art_id=75473&cat_id=40259)





## **5. Resume and Next Year Prospects**

The asset management industry in Ukraine in 2014, despite all the challenges and tests generally kept an upward trend. At that, quantitatively, in the context of market participants, it began to narrow, but the volume of assets grew constantly, promoting business's amalgamation. At the same time, sectors of public funds, in particular open-ended CII, were sensitive to negative changes in the stock market and in the country as a whole, and also – by the investment strategy and structure of assets accordingly- equities funds.

The outflow of capital from open-ended funds lasted for 3.5 years, several of these CII left the market, and there were no new ones established in 2014. Instead, as opposed to reducing the total number of venture CII, sector's assets' increasing this year continued and was actually equal by volume to the indicator of 2013. All categories of investors, except foreign citizens, increased their presence in CII.

**The number of asset management companies in 2014** continued to decline and at the end of the year it was 336.

**The number of collective investment institutions** – as recognized ones, which reached the compliance with the minimum asset value, and also registered funds – decreased for the first time. At that, this time the reduction affected also venture funds, though the sector of open-ended CII, which is reducing during the third year, was narrowed relatively the most. Total number of operating interval and closed-end funds declined the fourth year in a row.

The total **net assets of all CII** in 2014 almost saved the pace of growth – both through venture as well as other closed-end funds.

During the year the overall **net outflow of capital from open-ended CII** was registered every month, except May and December, and although quarterly indicators remained negative, but, by the year's results, the flow continued to decline. However, its share in reduction of sector's NAV was even slightly increased. During the year both balanced and equity funds, as well as bond ones, suffered the biggest losses caused by the exit of investors. At that both aggressive funds, as well as conservative ones were among the leaders by annual yield.

CII rates of return in 2014 generally increased: among open-end CII an average indicator more than tripled compared to the last year, for closed- end ones it increased - more than half. Two-thirds of open-ended CII ensured growth in the value of investments - after the third in 2013. Among the closed- end and interval CII the ratio was almost remained: about half and over 40% of funds, respectively, demonstrated growth. Almost half of open-ended CII had returns of investment in 2014 at least at the level of UX index. A number of public (non-venture) funds could also compete for the yield with bank deposits in Hryvnia.

**Asset management of non-government pension funds in 2014**, mainly demonstrated positive results, changing again the trends of the last year. Quantitatively, as well as CII market, this industry continued to decline, although assets under management returned to the rising trend. Open NPF remained the largest segment, as by the number of funds (80%) and by the assets under AMC management (71%).

**Insurance companies with assets under management** in 2014 increased in quantity, and their total assets in AMC service increased by more than half.

**Among the most urgent and pressing problems of the industry** - the complexity of compliance with regulations and legal requirements regarding the composition and structure of assets which is practically impossible in the conditions of termination of securities' circulation by emittents located in the occupied territories (in the ARC and ATO areas). Also, with the increasing number of problematic banks under the existing unfavorable for funds queue of creditors' claims satisfaction and impossibility of obtaining refunds from the Deposit Guarantee Fund for individuals, institutional investors had to bear losses or fix the growing share of problematic assets.

In addition, more and more actual becomes transition from quantity to quality: the growth of the financial and regulatory burden, objective stricter requirements for the qualification and professionalism of the asset management companies' specialist will contribute to market concentration and amalgamation of asset management business. Increasing of financial markets' risks as well as more and more reduction of



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list of high-quality assets and tools for investing by institutional investors – especially by pension funds – would also add to that.

**The key areas that have great prospects for the development of the industry of collective investment and asset management**, as well as the stock market as a whole, may be an introduction of new financial instruments, in particular, infrastructure bonds, long-term government bonds which are indexed to inflation, and derivatives - to hedge risks. Extremely important is also to stimulate further development of the 3rd pillar of pension reform (NPF) and promoting the implementation of the 2nd, savings, level (Accumulation fund, occupational pension scheme), and also increased use of CII in maintenance of the programs of private-state partnerships.

The development of the financial sector in the coming years will take place in the conditions of adaptation of Ukrainian legislation to the European Directives and the implementation of the Association Agreement in terms of financial service markets. AMC will have to raise performance standards, including risk management and CII information disclosure.

Raising of financial literacy of population remains also an important aspect, which requires joint efforts of public authorities and market's participants.

However, large-scale fundraising from retail investors - citizens of Ukraine on the stock market, the transformation of population's savings into long-term investment resources is possible only after implementation of real reforms in Ukrainian economy, providing reliable protection for investments and restoring confidence in financial institutions.

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- [Daily Fund Data](#)
- [Analytical Reviews and Statistics of Publicly Offered Investment Funds: Weekly, Monthly](#)
- [Quarterly & Annual CII Industry Reviews](#)
- [Quarterly Statistics of NPF Under Management](#)
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