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1. The Stock Markets: Ukraine and the World

2011 was a complex year for the stock markets: mainly positive dynamics of the first half-year was replaced with a fast and deep sinking in Q3, which became more moderate by year-end, and in some markets even gave way to growth.

The key problems that occupied investors around the world during the whole year were: the technogenic catastrophe at the nuclear power station in Japan; the economic revival and the problem of raising maximum threshold of government debt in the US that threatened the country's credit rating; the Euro zone debt crisis, as well as the economic growth and the inflation rates in China.

By the end of 2011 investment moods around the globe livened up, but most equity markets registered decline according to the results of four quarters. Only US equity index DJIA managed to achieve growth (+5.53%), though a broader index S&P 500 remained almost unchanged, and Western-European equities lost between 6% and 17%, while Chinese, Polish and Russian ones – between 17% and 22% (Chart 1).

The dynamics of Ukrainian equities during the year all in all closely correlated with the trends of well-developed European markets, though in Q2 and Q4 it, unlike in the Western markets, was expressly downward. Traditionally for the national market and similarly to the crisis 2008, equity indexes in Ukraine lost twice more than their Western peers – between 40 and 45%. That occurred in the situation of capital outflow from the country and, at the same time, decrease of the trading volumes in the stock exchanges in the second half of 2011.

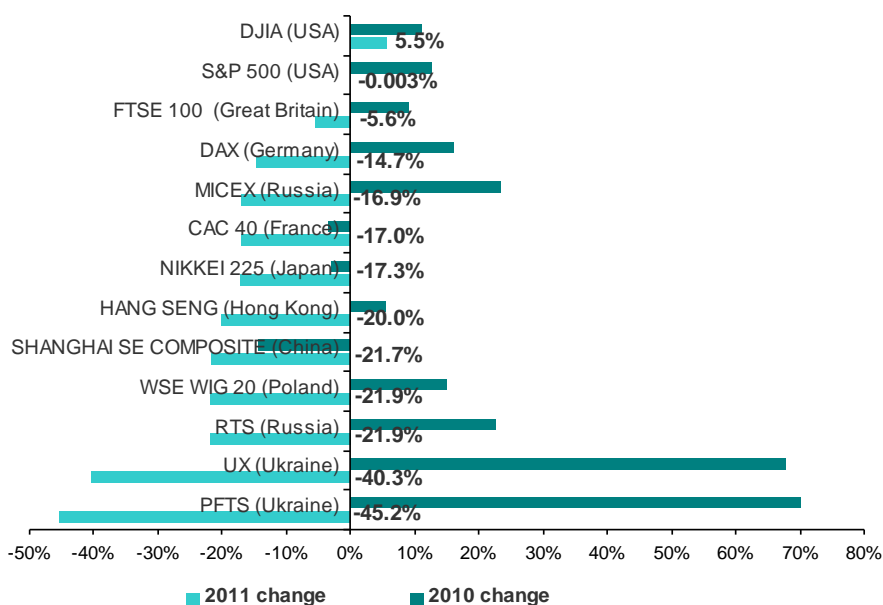


Chart 1. National markets' stock indexes dynamics in 2010 and 2011*

*Based on the data of exchanges and Bloomberg Agency



2. The Performance Results of the CII Market

As a result of the course of events in the global stock markets, 2011 was not a favorable year for the investments into public investment funds, as their rates of return closely correlate with securities market dynamics

Around the world and in Europe in particular¹, all funds successfully attracted new investments in the first half year. However, starting from Q3, along with a quickly growing tension in the financial and economic area around the globe owing to the impairing global growth prospects and European debt crisis, an outflow of capital started, particularly from equity funds and partially from balanced and bond funds. Investors' risk appetite during the year changed considerably as stock market assets were getting more attractive when the prices on them would go down significantly, but during the second half year investors more often preferred "safe harbors" and avoided investments into equities.

In Ukraine, this year investment funds' market trend was also downward, though by certain parameters growth continued.

2.1. The Number and the Regional Distribution of CII Market Participants

The dynamics of *the number of asset management companies* in 2011 was a two-way one: some AMC were winding up, and some were entering the market. All in all, in 2011 the number of AMC for the first time since 2008 somewhat increased and as of 31.12.2011 reached 341 AMC.

The number of registered collective investment institutions, according to the UAIB data, increased from 1226 to 1451 over the year, which became a more significant increase compared to 2010 (from 1202). Therefore, concentration of the activity on CII asset management continued to increase (Chart 2).

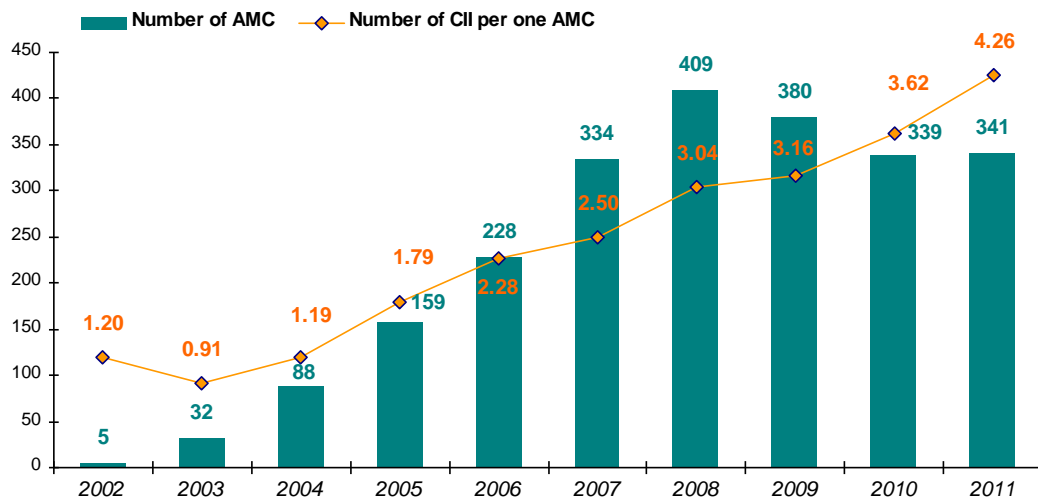


Chart 2. The dynamics of the number of AMC and CII per one AMC in 2002-2011

The number of recognized CII (such that complied with the standard on minimal asset volume) also renewed record having increased from 1095 to 1125 (Table 1).

Among CII types and categories, a significant expansion due to new participants occurred only in the sectors of venture (+23 or + 31.94% corporate CII and +17 or +2.25% unit CII), as well as open-end funds (+7 or +19.44%). The sector of interval unit funds experienced the greatest narrowing in relative terms (-8 or -16.67%), and the sector of close-end non-diversified corporate CII – in absolute terms (-13 funds or -9.22%).

¹ See [European Quarterly Statistics \(Q4 2011 & Y-E 2011\)](#) by EFAMA



Table 1. The dynamics of the number of CII that reached compliance with the standards in 2007-2011

	Total	UIF					CIF		
		O*	*	CD*	CNN*	CNV*	*	CNN*	CNV*
2007	577	14	25	3	15	423	0	63	34
2008	888	32	41	4	22	636	1	107	45
2009	985	32	47	8	26	690	2	130	50
2010	1095	36	48	9	32	755	2	141	72
2011	1125	43	40	10	35	772	2	128	95
2011 change, funds	11.17%	12.50%	2.13%	12.50%	23.08%	9.42%	0.00%	8.46%	44.00%
2011 change, %	2.74%	19.44%	-16.67%	11.11%	9.38%	2.25%	0.00%	-9.22%	31.94%

* O – open-end, – interval, CD – close-end diversified, CNN - close-end non-diversified non-venture, CNV - close-end non-diversified venture CII

In 2011, the share of Kyiv and Kyiv region *within the regional distribution of AMC* increased from 69.6% to 70.7% (+5, to 241 companies), and of the other regions-leaders – decreased (Chart 3). The share of the regions not included into TOP-5 also narrowed, whilst the number of AMC in all other regions dropped from 34 to 32.

As regards *CII distribution by the volume of assets managed and the number of funds*, Kyiv and its region also strengthened their leadership – from 72.3% to 73.4% and from 70.0% to 70.4% respectively.

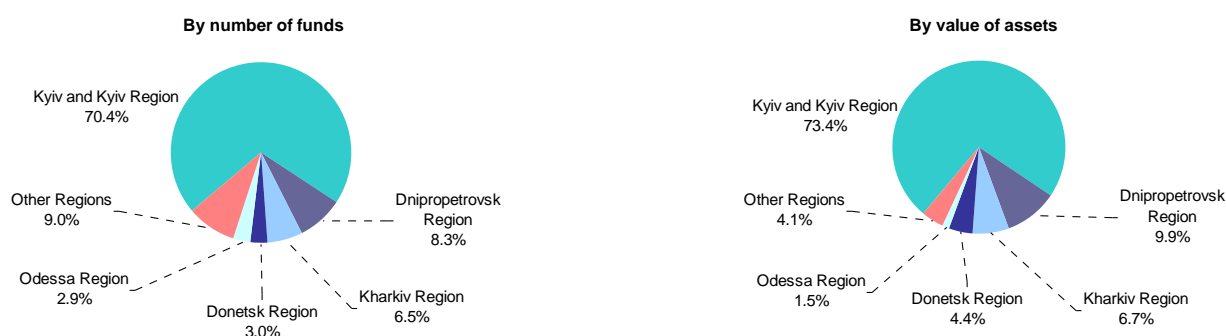


Chart 3. The regional distribution of CII by the number of CII and the value of their assets managed, as of 31.12.2011

2.2. The Assets and the Net Assets of CII. The Net Inflow/Outflow of Capital in Open-End CII

In 2011, the CII market continued to grow its assets, although this growth rate slowed down in the conditions of stock market downfall. In such way, an *aggregate value of funds' assets* under management grew from UAH 105 866.6M to UAH 126 789.6M (Chart 4).

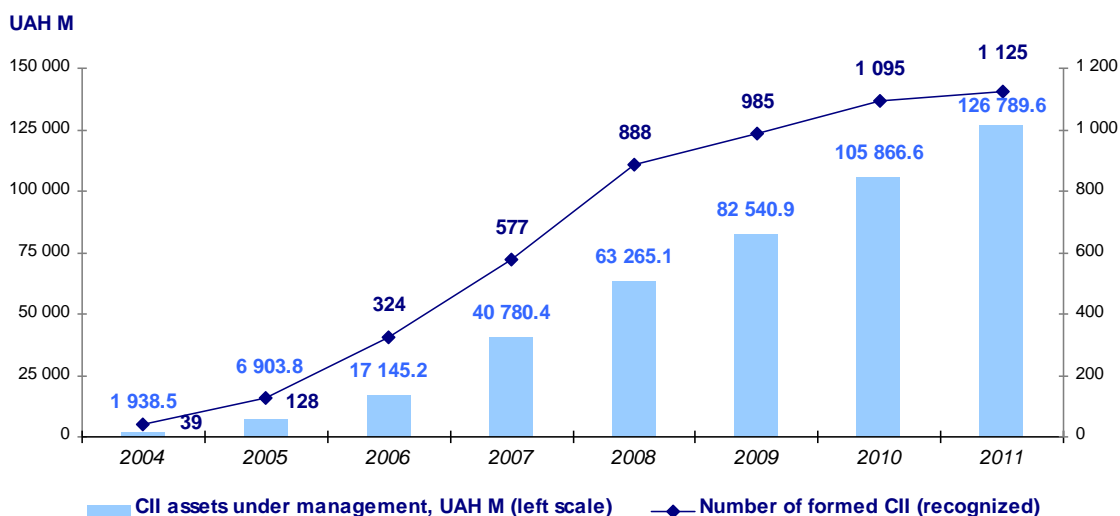


Chart 4. The dynamics of CII asset management market in 2004-2011*

* The NBU official rates: 10.298053 UAH per 1 EUR, 7.989800 UAH per 1 USD as of 31.12.2011.



Market asset growth occurred primarily owing to venture funds (from UAH 96 976.2M to UAH 116 901.4M), although non-venture close-end CII also demonstrated growth (Chart 5).

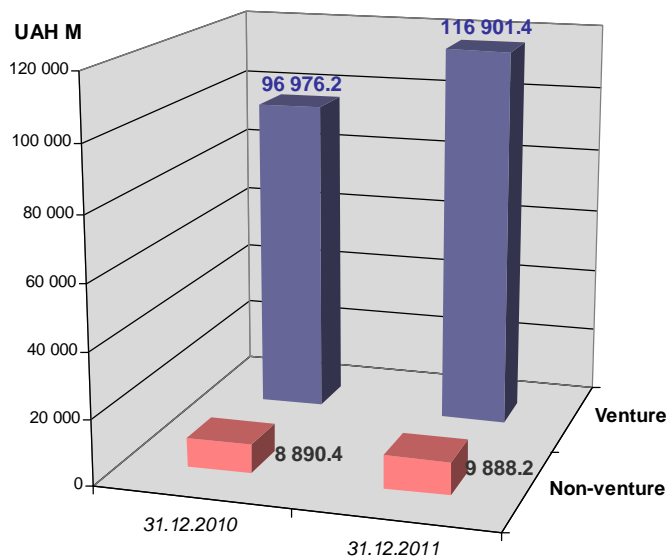


Chart 5. The dynamics of the asset value of venture and non-venture CII in 2011

An aggregate value of the net assets of all CII in 2011 grew from UAH 94 741.3M to UAH 112 691.1M (+19.0%) (Table 2). At that, the number of funds taken into account during the calculation increased from 990 to 1036. The share of the venture segment, as its NAV grew by UAH 17 217.9M (+19.9%), broadened from 91.2% to 92.0% (Chart 6).

Table 2. The dynamics of CII NAV, by the types of funds in 2011, UAH M

Funds	31.12.2010	31.12.2011	Change during 2011, UAH M	Change during 2011, %
Open-end	281.35	227.01	-54.34	-19.31%
Interval	245.22	181.85	-63.37	-25.84%
Close-end (non-venture)	7 775.72	8 625.30	849.58	10.93%
All non-venture	8 302.29	9 034.16	731.87	8.82%
Venture	86 439.05	103 656.91	17 217.86	19.92%
All (including venture)	94 741.33	112 691.07	17 949.73	18.95%

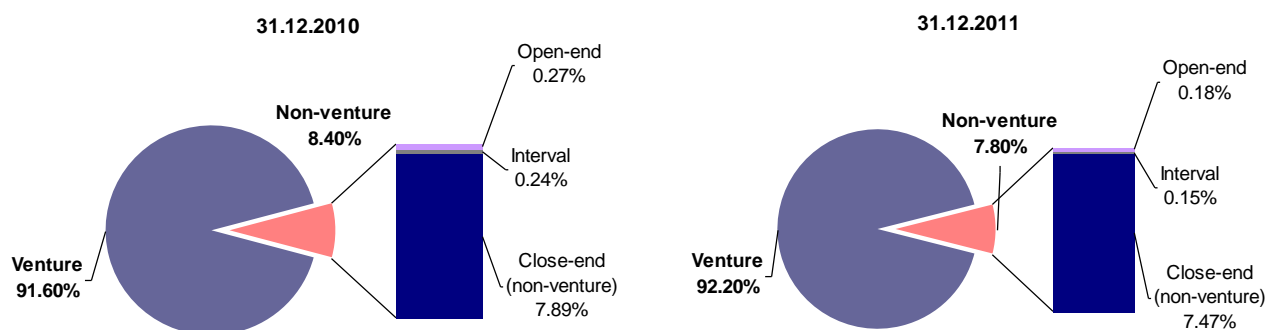


Chart 6. CII NAV breakdown, by the types of funds, as of the beginning and end of 2011



As a result of the negative dynamics of the NAV of open-end and interval CII in 2011, as well as due to the close-end CII sector growth, the share of the former in the non-venture funds' market narrowed from 3.4% to 2.5% and of the latter - from 3.0% to 2.0% respectively (Chart 7).

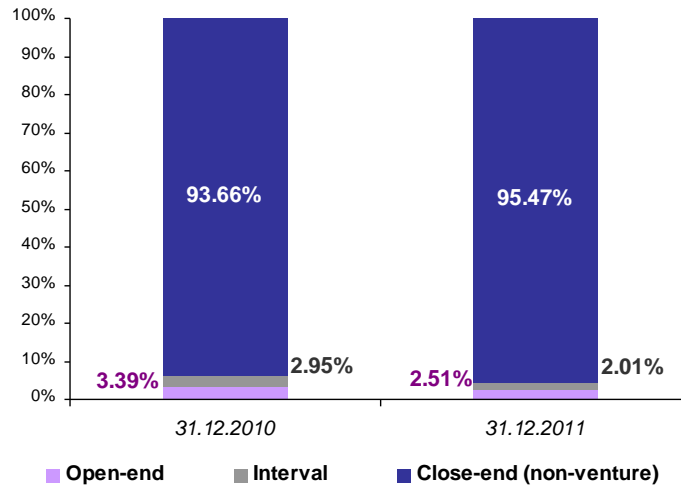


Chart 7. The dynamics of the non-venture CII NAV breakdown by the types of funds at the beginning and end of 2011

An inflow of investments into public CII in Ukraine, just as around the world, that had been observed during the first half-year 2011, dropped off with the start of the second half-year (Chart 8). In Q4, capital outflow intensified and resulted in massive losses on year base. Equity funds suffered most. In the meanwhile, bonds funds were also losing investors as the debt crisis was unfolding in Europe.

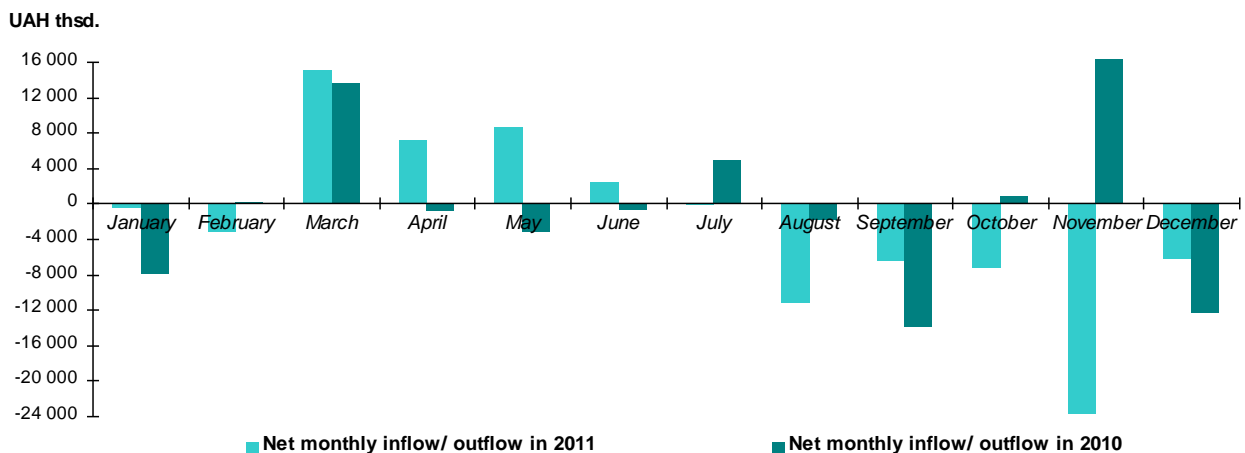


Chart 8. Monthly net inflow/ outflow of capital in open-end CII in 2010-2011 (based on daily data)

Once again, contributions to and withdrawals of moneys from the funds by investors became the main driver of the net assets' dynamics in the open-end CII sector. However, whilst in 2010 the said impact was positive (+UAH 23.0M), in 2011 it was already negative, as an outflow of capital from open-end funds during the year reached UAH 24.5M. To a great extent, it resulted from the negative balance of the funds' Q4 sales (-UAH 37.0M) (Table 3, Chart 9). At that, a decisive impact on the dynamics of investors' moneys flow was exercised mainly by individual funds.



Table 3. Net inflow/outflow of capital in open-end CII in 2011 (based on daily data), UAH thsd.

	Net monthly inflow/ outflow in 2010	Number of funds on which data are available	Net monthly inflow/ outflow in 2011	Number of funds on which data are available
January	-7 813.7	32	-448.5	31
February	283.8	32	-3 089.9	34
March	13 646.3	32	15 090.6	35
April	-853.3	30	7 172.0	35
May	-3 160.6	30	8 682.4	35
June	-597.1	30	2 504.9	33
July	4 984.0	29	-43.5	36
August	-1 838.7	32	-11 040.6	38
September	-13 824.9	32	-6 343.1	39
October	970.9	34	-7 217.0	40
November	43 555.2	34	-23 654.6	40
December	-12 385.6	27	-6 138.0	38
Annual	22 966.2	-	-24 525.4	-

The dynamics of investor contributions into open-end CII in 2011, in particular in Q4, was almost opposite to 2010 one, as the net inflow of Q1-2 was completely leveled off by the outflow observed by 2011 end, whilst the net inflow in Q4 2010 had ensured a positive annual result (Chart 9).

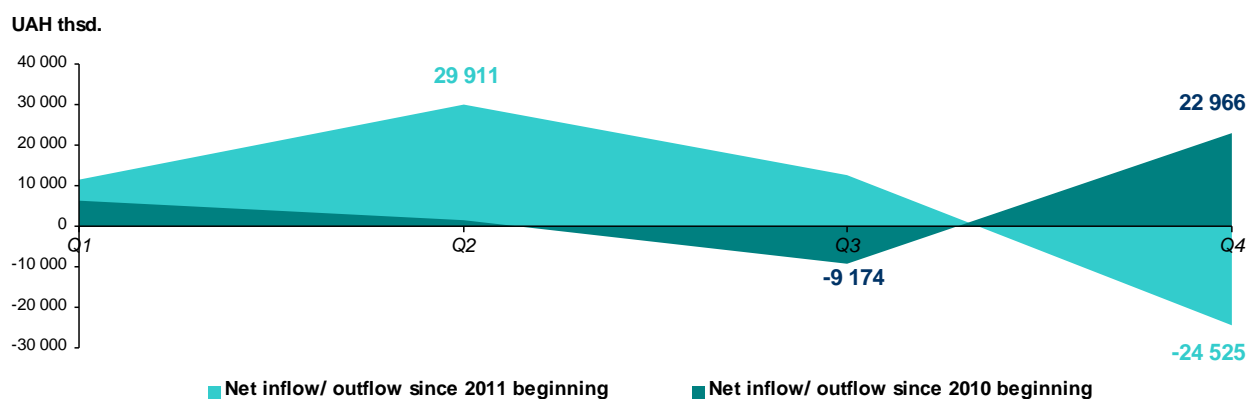


Chart 9. Net inflow/ outflow of capital in open-end CII in 2010-2011 (quarterly basis, accrual)

2.3. The Structure of CII Assets

Securities remained the key component of the assets of the CII of open-end, interval and close-end (non-venture) types in 2011 (between 60.1% in close-end and up to 68.04% in interval funds). Equities were the main stock market instrument via which CII made their investments (29.6% in open-end up to 55.8% in interval funds). The share of moneys on bank accounts in the most liquid types of funds was also significant (23-28% in interval and open-end CII), just as the share of state and corporate bonds (Chart 10).

A substantial outflow of capital from open-end CII in Q3-4 conditioned significant changes within the structure of an aggregate portfolio of this CII sector according to 2011 results, in particular: the equities' share narrowed from 36.7% to 29.6%, whilst growth occurred in the respective shares of OVPD (from 13.1% to 17.1%) and moneys in banks (from 27.4% to 28.6%).

The equities' share increased solely within the consolidated portfolio of interval funds – from 53.9% to 55.8%, though an aggregate value of investments into these instruments grew in Q4 only, and on annual basis – decreased (-UAH 32.0M).

In close-end CII the share of equities narrowed from 56.0% to 47.8%, and of “other assets” (corporate rights in other than securities forms, loans etc.) – broadened from 21.1% to 32.4%, as the amount of these investments increased by UAH 1 365.0M.

Venture funds in 2011 also increased their investments into “other assets” (+UAH 13 525.66M), which, finally, expanded their share within an aggregate portfolio of this CII sector from 59.6% to 62.6%.

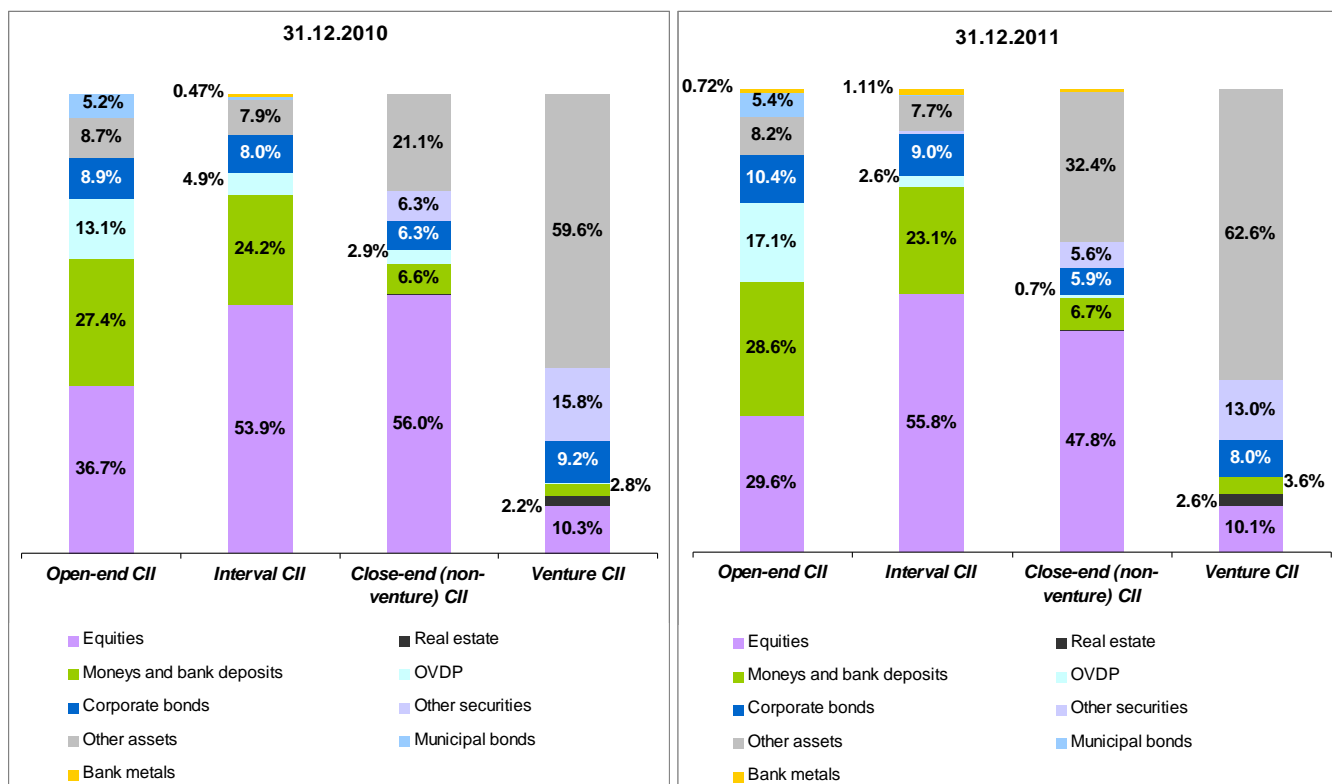


Chart 10. The structure of CII assets by the types of funds at the beginning and end of 2011

Domination of venture funds by asset quantity and volume affected the structure of the aggregate CII investments into securities, where promissory notes had been the main component, at that, in 2011 their share increased from 37.7% to 39.5%. Meanwhile, the share of equities was only a little smaller (Table 4).

Table 4. The aggregate securities portfolio of CII, by the types of instruments, in 2010 and 2011

Security type	Aggregate value of the security in CII portfolios, UAH		Share in the aggregate CII securities portfolio	
	31.12.2010	31.12.2011	31.12.2010	31.12.2011
Promissory notes	15 570 400 663	17 514 090 602	37.73%	39.52%
Equities	15 113 745 669	16 322 316 353	36.63%	36.83%
Corporate bonds	9 529 105 655	9 783 641 301	23.09%	22.07%
Mortgage securities	517 409 207	336 018 325	1.25%	0.76%
Savings certificates	36 900 000	197 887 500	0.09%	0.45%
Internal state loan bonds	452 977 494	120 966 788	1.10%	0.27%
Municipal bonds	27 035 806	40 630 293	0.07%	0.09%
Other	16 074 049	5 496 590	0.04%	0.01%
Total	41 263 648 543	44 321 047 751	100.00%	100.00%

Within consolidated portfolios of all types of funds, with exception of venture ones, equities prevailed, with their respective share growing in 2011 from 77.3% to 78.9% (Table 5).

Table 5. The aggregate securities portfolio of non-venture CII, by the types of instruments, in 2010 and 2011

Security type	Aggregate value of the security in CII portfolios, UAH		Share in the aggregate CII securities portfolio	
	31.12.2010	31.12.2011	31.12.2010	31.12.2011
Equities	4 848 780 564	4 743 787 437	77.30%	78.86%
Corporate bonds	565 333 619	607 517 901	9.01%	10.10%
Promissory notes	513 278 277	533 819 446	8.18%	8.87%
Internal state loan bonds	285 578 135	107 648 248	4.55%	1.79%
Municipal bonds	21 168 283	16 056 001	0.34%	0.27%
Savings certificates	36 900 000	5 887 500	0.59%	0.10%
Other	1 875 303	794 570	0.03%	0.01%
Total	6 272 914 180	6 015 511 103	100.00%	100.00%



Diversified CII had a structure of investments into securities similar to the one of other non-venture funds, with equities playing the key role (79.8% after 77.5% in 2010), and the tiniest share belonged to municipal bonds (0.8% after 1.1% in 2010) and some other instruments² (Table 6).

Table 6. The aggregate securities portfolio of diversified CII, by the types of instruments, in 2010 and 2011

Security type	Aggregate value of the security in CII portfolios, UAH		Share in the aggregate CII securities portfolio	
	31.12.2010	31.12.2011	31.12.2010	31.12.2011
Equities	1 253 659 947	1 280 605 987	77.49%	79.80%
Corporate bonds	68 163 744	108 811 295	4.21%	6.78%
Promissory notes	114 640 684	79 066 939	7.09%	4.93%
Internal state loan bonds	49 690 668	44 198 082	3.07%	2.75%
Municipal bonds	16 960 203	12 962 926	1.05%	0.81%
Other	114 640 684	79 066 939	7.09%	4.93%
Total	1 617 755 930	1 604 712 167	100.00%	100.00%

2.4. The Rates of Return of CII and Other Investment Instruments

In 2011, Ukrainian equity indexes lost all value growth that had been achieved in 2010 (-40-45% after +68-70%), having rolled back to the end of 2009 level (Chart 11).

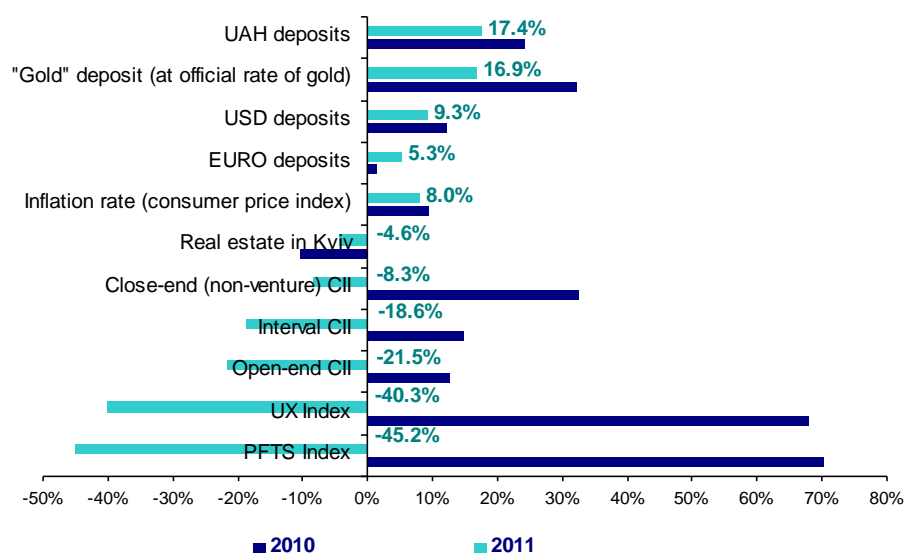


Chart 11. Average rates of return – non-venture CII, bank deposits, equity indexes and inflation rate in 2010 and 2011³

Similar behavior was demonstrated by CII, though the stock market indicators' downfall of Q3 2011 and the capital outflow of the second half-year severely affected open-end and interval type funds, whose average rates of return declined notably lower than those of close-end CII on the whole. Open-end CII demonstrated on average -21.5% for year 2011 (results of individual funds ranging between -50.6% and +14.2%, where 5 out of 32 generated positive rates of return), interval CII – -18.7% (between -49.8% and 16.7%, where 10 out of 36 generated rates of return above zero), close-end CII – -8.3% (between -92.2% and 148.3%, where 47 out of 128 generated rates of return above zero).

² Top-10 of the most popular securities (issuers) by the number of CII holding them within their assets, as well as by an aggregate value of CII investments thereto can be found in Q4 2011 Analytical Review of the CII Market in Ukraine.

³ CII rates of return are calculated based on the reporting data for Q1-Q4 2011, see Rankings of the rates of return of open-end, interval and close-end funds in 2011. The inflation rate provided is based on the State Statistics Committee data (Consumer price indexes in 2002-2011). Return on real estate is calculated based on Kyiv real estate value index (Source: <http://www.blagovest.ua>).



Thus, in 2011 in Ukraine, just as in the whole world, public CII, particularly those with aggressive investment strategies, incurred significant losses and were getting unpopular with investors. At the same time, some funds with moderate and conservative strategies were more efficient in preserving their contributors' investments' value during that period, and some even managed to ensure this value growth.

Among other investment directions were *the deposits in gold and euro*, which in Q4 were loss-making, and whose estimated 2011 return comprised +16.9% and +5.3% respectively.

As rates in the financial markets were going up, annual bank deposits in UAH turned out to be most profitable (17.5%) in 2011.

2.5. The Investors of CII

Among various CII investor categories, Ukrainian companies held most of moneys in the funds both as of the beginning and end of 2011 (81.8% and 81.0% accordingly), including in close-end non-venture CII – 65.4% (after 63.7% in 2010), and in venture ones – 82.5% (83.5%) (Chart 12).

Natural persons-residents remained the key investors of open-end and interval funds this year with 50.4% and 49.4% respectively (after 58.6% and 54.6% in 2010).

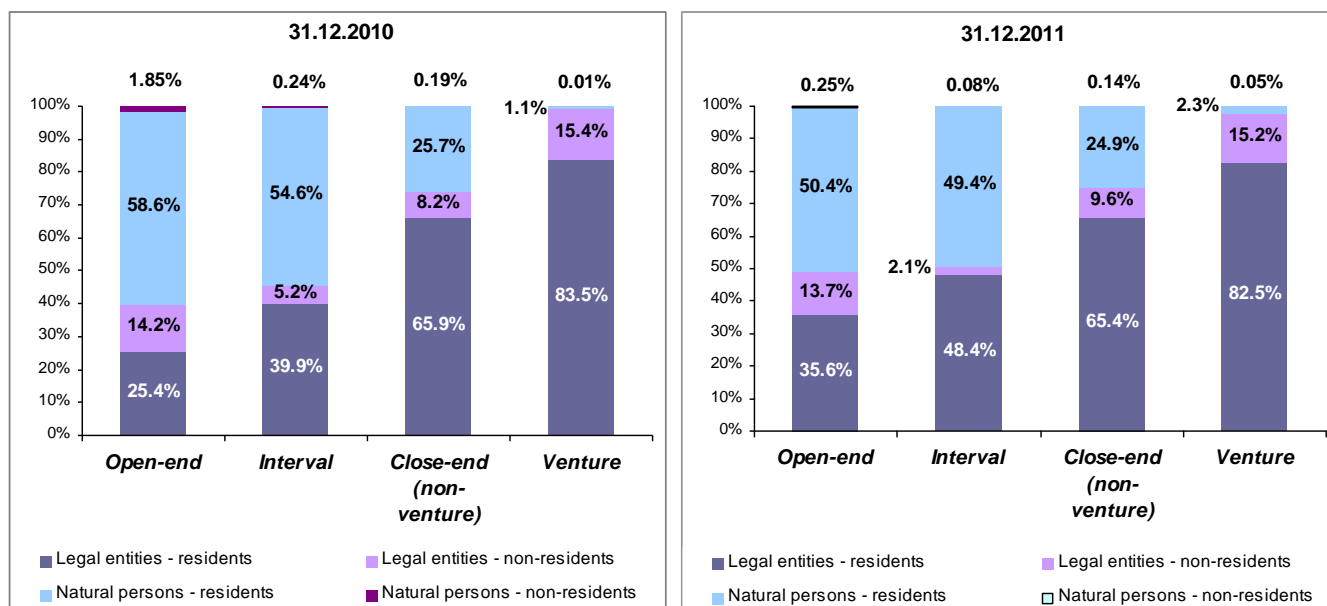


Chart 12. Investments into CII Breakdown by Investor Categories in 2010-2011, share within NAV

A new tendency in the breakdown of CII NAV by investor categories appeared by the end of 2011 – an increase of the investments of Ukrainian legal entities into open-end funds, natural persons – into venture, and foreign investors – into close-end CII.



3. The Results of the NPF Asset Management Market

In 2011, the number of AMC holding contracts for NPF assets' management decreased for the first time since 2009 – from 49 to 47. The number of non-state pension funds serviced by AMC also declined – from 93 to 85, whilst the value of their assets under management – grew from UAH 630.6M to UAH 639.0M (+1.33%) based on the data of 87 and 80 funds respectively (Chart 13).

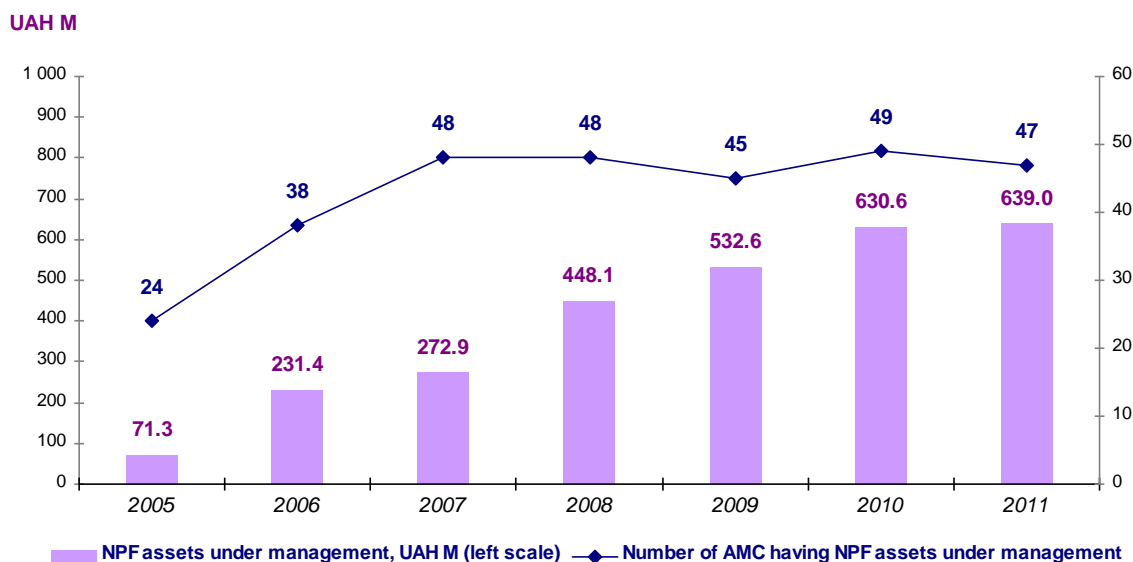


Chart 13. The dynamics of NPF asset management market in 2005-2011

In 2011, the greatest NPF sector – of open funds – narrowed from 74 to 68 funds (Table 7), although the growth of its assets under management made the key contribution to the industry growth. As of 31.12.2011, AMC also managed assets of eight corporate and eight professional NPF, with the number of the former decreasing by two during the year, and of the latter – remaining unchanged. At that, open funds were on average smaller than NPF of other types: by the number of funds this sector's share comprised 80.0%, whilst by the asset value under management – 75.1% (Chart 14).

Table 7. The number of NPF under AMC management, by the types of funds in 2010-2011

NPF type	31.12.2010	31.12.2011	2011 change
Open	74	68	-8.11%
Corporate	10	8	-20.00%
Professional	9	9	0.00%
Total	93	85	-8.60%

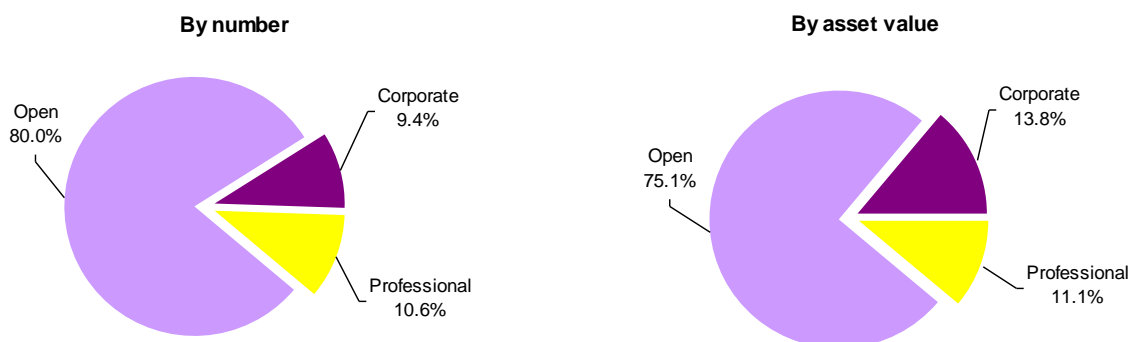


Chart 14. The distribution of NPF number and asset value under AMC management, by the types of funds as of 31.12.2011



The assets of open NPF under AMC management grew from UAH 473.7M to UAH 479.0M (+1.31%) based on the data of 70 and 64 funds, accordingly. The asset value of corporate NPF increased by 3.5%, and of professional ones – decreased by 1.1% (Table 8).

Table 8. The value of NPF assets under AMC management, by the types of funds in 2010-2011

NPF type	31.12.2010		31.12.2011		Change in AuM over 2011
	AuM, UAH	Number of NPF that filed reports	AuM, UAH	Number of NPF that filed reports	
Open	473 742 842	70	479 950 754	64	1.31%
Corporate	84 921 004	8	87 883 500	8	3.49%
Professional	71 900 146	9	71 130 271	8	-1.07%
Total	630 563 993	87	638 964 525	80	1.33%

An increase of the value of investments into securities in all NPF was faster compared to other asset classes, as a result, their respective share within the aggregate portfolio grew from 51.6% to 52.6% (Chart 15).

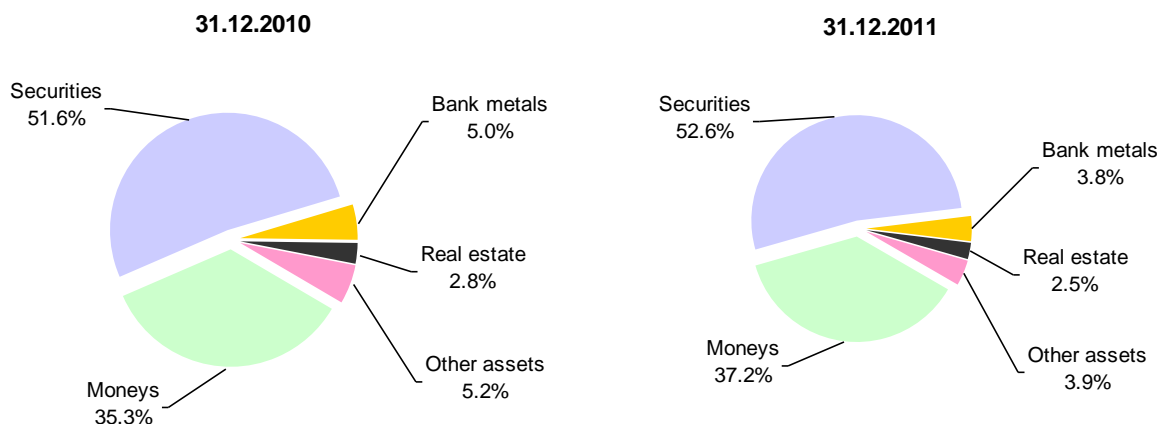


Chart 15. NPF aggregate portfolio structure dynamics in 2010-2011

Within the structure of investments of open and corporate NPF in 2011 growth occurred in the moneys on bank accounts (respectively from UAH 195.4M to UAH 202M and from UAH 25.8M to UAH 33.5M) and in the securities (from UAH 206.2M to UAH 215.4M and from UAH 48.8M to UAH 51.1M) (Table 9).

Table 10. The structure of NPF assets under AMC management, by the type of funds, as of 31.12.2011, UAH

NPF type	Moneys	Securities	Bank metals	Real estate	Other assets
Open	202 575 549	215 429 147	22 731 850	15 667 051	23 547 157
Corporate	33 538 814	51 136 208	1 865 988	0	1 342 490
Professional	1 329 737	69 572 921	0	0	227 613
Total	237 444 099	336 138 276	24 597 838	15 667 051	25 117 260

An opposite situation was observed in professional funds: an aggregate asset value decreased mainly due to a decline in the investments into stock market instruments (from UAH 70.1M to UAH 69.6M). However, due to a decrease of the moneys' amount by 16.9%, the securities' share within professional NPF portfolios in 2011 expanded from 97.5% to 97.8% (Chart 16).

Aggregate investments of all NPF types into other asset categories dropped by UAH 17.3M, without taking into account a minor increase of professional NPF investments into "other assets".

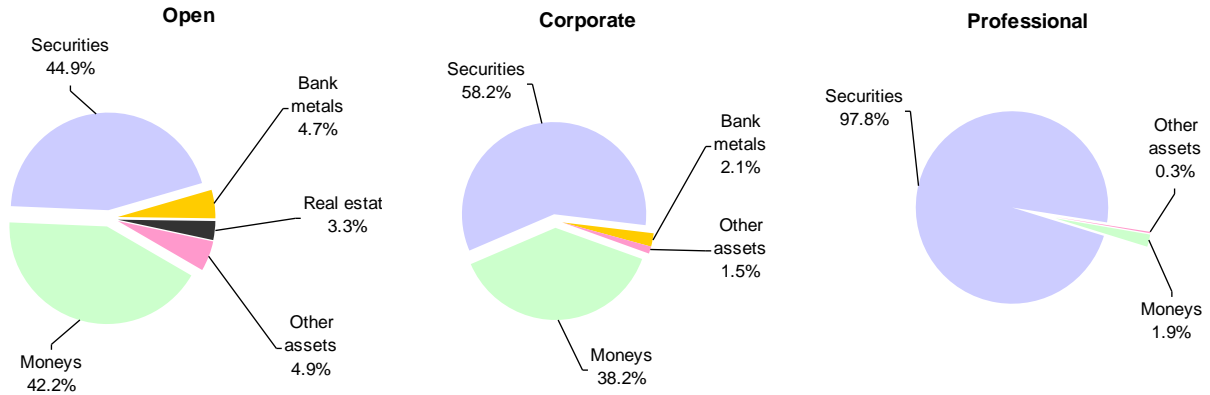


Chart 16. NPF asset structure by the types of funds, as of 31.12.2011

4. The Resume and Next Year Prospects

Despite a generally unfavorable year, we could say that from the viewpoint of the number of participants in 2011 the asset management market remained relatively stable, and an aggregate volume of CII assets invested into the Ukrainian economy did not decrease. Although the crisis events have not been coped with by all investment process participants, the national investment industry continues to develop and new trends, which will determine its further development, are being formed therein.

In 2012, with passage of the new version of the Law "On Collective Investment Institutions", the range of CII will broaden due to investment funds' specialization by asset classes and investment strategies. That will help to finalize formation of the structure of the market of CII services aimed at the management of savings of mass, as well as individual large private investors.

As for the prospects in the area of corporate finance management, a further strengthening of the role of CII in the management systems of financial, industrial, as well as financial and industrial groups; a development of funds-holdings for the middle class, as well as a concentration of investors' corporate property in CII, are expected. In the area of project investments we anticipate development of private investment projects' financing via CII and their use as a mechanism for the implementation of state-private partnership projects. A development of stress-asset funds and an expansion of the investment activities related to companies' sanation could be expected in the area of venture investments.