## Contents





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# 1. Stock Markets: Ukraine and the World

Year 2018 started optimistically for ***leading world stock markets***, but by the end of the 1-st quarter volatility became stronger and the downtrend began to dominate. Among the main factors were the following ones: geopolitical confrontations involving *the USA, the EU and China* and the new threat of large-scale trade wars between the largest markets, cooling of the global economy along with rising inflation in developed countries and Brexit. Equities *in the Great Britain*, whose financial sector risked to lose access to the Single Market of the EU, suffered the most during the first months of this year. Series of new EU financial regulation legislation that came into force from the beginning of 2018, in particular by Directive 2014/65/EU and EU Regulation No 600/2014 on financial instruments markets (MiFID II and MIFIR) also added challenges. They aimed to strengthen the protection of investors' interests, and significantly complicated the conditions for activities of professional participants in European financial markets, that resulted in exerted pressure on certain sectors of the financial markets and, in general, on the returns of investment business in Europe.

The growing crisis of globalization in the context of trade contradictions between the world's largest economies as well as domestic political ones in the *Great Britain*, with the approaching of official date of exit from the EU in March of 2019, affected the largest economy in the EU, namely the *Germany* one, where the stock market currently dropped below the level of the beginning of the year. On the other hand, in September, FTSE Russell, the leading provider of stock indexes, ranked *Poland*, the first country among Central and Eastern European countries, as “developed markets” (DM) and included it in the corresponding index with 25 other most developed economies in the world with a favorable regulatory environment, high-quality of capital and derivatives markets. This markedly prompted Polish equities and allowed them to compensate about half of the losses since the beginning of the year.

***The 4th quarter of 2018*** was a period of increased turbulence and correction on the main world markets. After a long and steady growth, their participants got the reason to reassess their expectations about the development of the global economy and its key regions and participants in the context of threats faced by them. Intention of the USA Federal Reserve to continue to raise gradually its key rate, even against the backdrop of relatively positive macroeconomic indicators of the country, caused a negative reaction of investors who feared the impact on markets of the unresolved trade war between *the United States and China* and of decline of China’s economic growth in conditions of its structural changes. While *the Great Britain* continued unsuccessful attempts to organize withdrawal from the EU on acceptable terms, investors were increasingly cautious about British assets, while regular researches showed potential losses for the economy and stock markets of both the country itself and of the bloc, the European Commission began to implement action plans for case of exit “without agreement”. At the same time, the largest economic and financial centers in Europe, in particular *Germany one*, was immensely concerned with Brexit, benefiting from moving of some of British businesses to it, and expecting the strengthening of this process.

Tension in the markets was aggravated by the tariff opposition in the trade negotiations between the USA and the EU, which took place at this time: the Europeans threatened by mirror actions in response to protectionist steps of American administration. This happened against the background of cooling of the third largest economy of the EU- the Italian one, which actually went into recession, but had a risk of financial sanctions from the EU side for violation of budgetary constraints. France also suffered economic losses at the end of the year - in the context of social protest of "yellow waistcoats", who forced the government and the president to make concessions, in particular, concerning raise of salaries and tax constraints.

Despite such an unstable macroeconomic situation in some of the major countries - the engines of euro-zone, the ECB decided to roll off its stimulus program amounted to EUR 2.5 trln, but without raising of rates. Against this backdrop, the inflow into gold-based stock exchanges intensified in the world, while traditional stock markets, including the European UCITS, as well as hedge funds, suffered outflow of capital during the last months of 2018.

*American equities* lost 12.8-14.7% for the fourth quarter of 2018 (Chart 1), and about 7% ***for the whole year*** (after +19-25% in 2017). *The German and French* key indices had similar quarterly losses, and their annual ones were much higher (-18% and -12%, respectively), and leveled the gain for the previous year. *British* equities also showed the two digit reduction- by 10.3% in the fourth quarter and by 12% for the year 2018, that also lowered them below the level of the end of 2016. In October-


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December *Japanese* equities fell the most - both among developed markets and in comparison with all others (-17.0%), though their annual output from the beginning of 2018 was practically the average one for key world markets (-12%) and only partially "ate" the gain of 2017 (+19%). *Polish* key indicator in the 4th quarter sank by only 0.4%, finishing the year 2018 with a relatively moderate for developed markets result -7.5%.

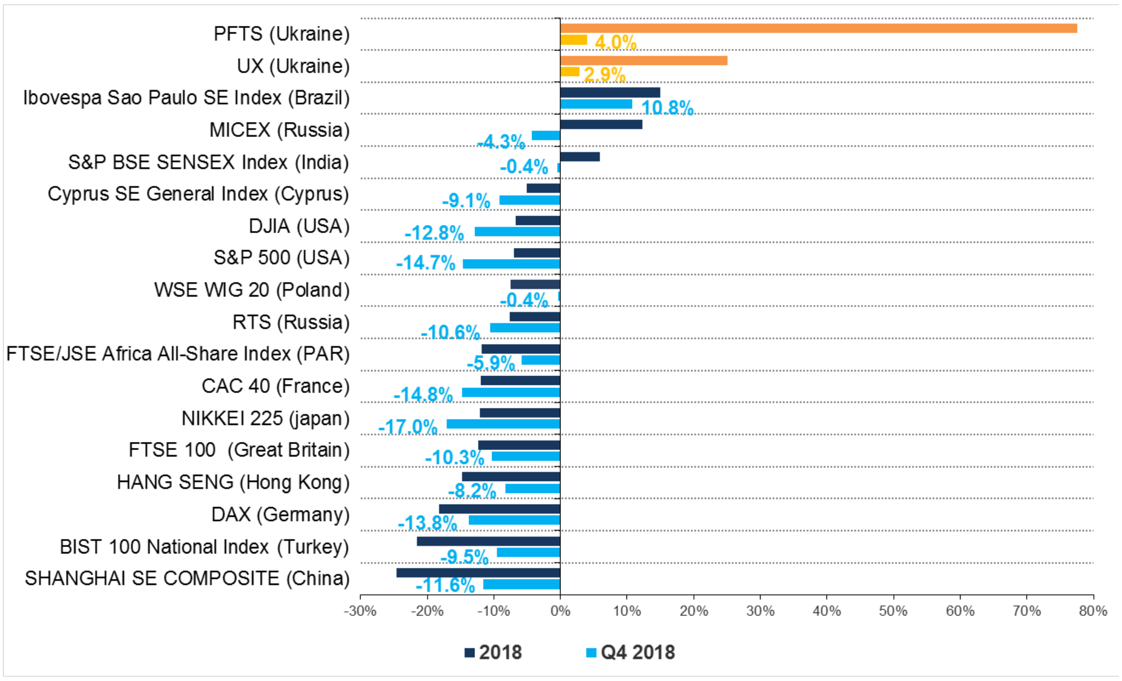


*Chart 1. Dynamics of the world stock indices in Q4 2018 and 2018**

** Based on the data of exchanges and Bloomberg Agency. Ranking in the chart isbased on annual indicator.*

**Emerging markets** reached their 10-year peak in January. However, under the impact of the above mentioned factors, the main one of them - *the Chinese market* - suffered significant losses during 2018, at that the annual losses were the largest for both this segment of markets, and generally for the world markets (by the Shanghai Stock Exchange index, -11.6% in Q4 2018 and -24.6% for the year). At the same time, in October of 2018, FTSE Russell decided to include *Chinese* "continental" equities (so-called A-shares) in its global benchmarks (FTSE Global Equity Index Series), starting from June of 2019. Thus, this provider of indexes followed the example of MSCI, which began to include A-shares in its Emerging Markets index already in June of this year.

Also, during 2018 it was announced about return of Argentina and inclusion of Saudi Arabia for the first time in the MSCI Emerging Markets index starting from mid-2019, that guarantees them the investment from global investors who use this index as a benchmark. So, these markets in general continued to attract capital from international investors, although at the same time there was a sale of a number of developing countries' currencies.

Thus, *Turkish* equities were also among outsiders in 2018 (-21.6%, including -9.5% for the 4th quarter), though they lost less than half of the previous year's growth (+47.6%). This fall was conditioned both by external pressure, in the context of political conflict with the United States, and by internal conflicts over monetary policy, on the background of worsening of economic situation in Turkey due to the imbalance of the credit market and deepening deficit of the balance of payments. *India* had also the similar problems with the deficit of foreign trade, but in the second half of the year the government managed to stop the downtrend and, having lost only 0.4% for the 4th quarter, Indian equities showed +5.9% by results of the year 2018 (after +27.9% for 2017). *Brazilian* index became the leader of growth in the second half of 2018; it demonstrated probably the greatest volatility among key global markets and added 10.8% for the fourth quarter and 15.0% for the year 2018 (after +26.9% in 2017). *Russian* indicators had strengthened volatile dynamics in 2018 and finally demonstrated losses in the 4th quarter, which correlated with the 37% drop of oil prices during this period - from -4.3% by the ruble MICEX index to 10.6% by the dollar-denominated RTS index. The annual results of these two key indicators were multi-directional - +12.3% and -7.6%, respectively, at that if the MICEX overplused losses of 2017 by growth in 2018



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(-5.5%), then the RTS dropped below the level of the end of 2016. Such a picture in general corresponded to the ambiguous attitude of investors towards Russia, taking into account preservation of regime of sanctions and weak growth of the country's economy.

**Ukrainian stock market** entered the year 2018 with lively optimism, which also attracted attention due to some of its successes in reforming of Ukraine's financial sector in conditions of the global investors' thirst for profitable assets.

Thus, at the beginning of the year, the Law of Ukraine "*On Amendments to Certain Legislative Acts of Ukraine on Facilitation of Business and Attraction of Investments by Issuers of Securities* " No. 2210-VIII entered into force, which, in particula, changed the requirements for the structure of assets of investment and pension funds, expanding their investment opportunities. The Law No. 2164-VIII improved certain provisions of the Law "*On Accounting and Financial Reporting in Ukraine*", including abolition of the requirement to publish financial reports. Also in the course of bringing Ukrainian legislation in correspondence to the European Union's one for implementation of the Association Agreement with the EU, already in December of 2017, the following Laws were adopted: *"On Audit of Financial Reporting and Audit Activities*" No. 2258-VIII (effective from October of 2018, statements concerning rules on sanctions - from January 2019), the Law *"On Limited and Additional Liability Companies"* No. 2275-VIII (effective from June of 2018, some provisions will come into force one year afterwards). The Law "*On Amendments to Certain Legislative Acts of Ukraine on Facilitating the Attraction of Foreign Investments"* No. 2418-VIII (came into force in November) was also intended to facilitate foreign investors' investing in Ukrainian assets and to increase significantly attraction of foreign investments in Ukraine through the local stock market by introducing the institution of nominee. The Law "*On Currency and Currency Transactions*" (No. 2473-VIII, effective from February 2019) is expected to contribute more to the approach to the regime of free movement of capital which is provided for by international treaties of Ukraine. This Law, prepared by the NBU in co-operation with the European Commission, taking into account the regulatory acts of the EU Council, also provides greater flexibility for the NBU in terms of exercising its powers and instruments to prevent and overcome financial and economic crises. In addition, the Law "*On Amendments to the Law of Ukraine* "On the Judiciary and Status of Judges in connection with the adoption of the Law of Ukraine "*On the Highest Anti-Corruption Court*" No. 2509-VIII dated July 12, 2018, which improved anti-corruption legislation in Ukraine and allowed unlocking of its further cooperation with the IMF also was supported by the IMF.

During 2018 two more bills were submitted to the parliament, which were intended to lay the foundations for the further development of the stock market of Ukraine and approximation of its rules of regulation to European requirements (including Directives of EU Regulations on Financial Instruments MiFID II/MiFIR). This is the *Draft Law on Amendments to certain Laws of Ukraine on Bank Financial Instruments* No. 9034 dated September 3, 2018 and the *Draft Law on Amendments to Certain Legislative Acts of Ukraine on Facilitation of Attraction of Investments and Introduction of New Financial Instruments* No. 9035 dated 09.03.2018, which replaced the rejected earlier project number 7055 dated 01.09.2017. These and other draft laws which are important for the financial markets of Ukraine still have to be considered by the Verkhovna Rada.

During the year, discussions continued between regulators and market participants *on pension reform*, namely, on the launch of the 2-nd level of pension system. In addition to the proposed by people's deputies and representatives of professional market participants draft Law No. 6677, which was registered in parliament in July of 2017, the National Securities and Stock Market Commission (NSSMC) also presented its variant of draft law on pension.

In addition, in October NSSMC approved the *Concept of the Reform of the Capital Markets' Infrastructure in Ukraine,* developed with the support of the European Bank for Reconstruction and Development. The concept provides identification of areas of legislation for improvement in order to ensure modernization of the capital market' infrastructure in Ukraine in accordance with international standards and practices.

Among the promising regulatory innovations in 2018 there was introduction of "automatic" admission of foreign issuers' securities for trading on Ukrainian exchanges, by initiative of the stock exchange and in accordance with an agreement between it and such of an issuer which is traded on the leading world's exchanges or on any exchange of the EU member state. According to these changes, at the end of the year, securities of a foreign issuer (Apple) were introduced in the Ukrainian market under a simplified procedure.



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Already as at the end of 2017, the NSSMC approved changes in the regulation of stock exchanges' activity, which came into force already in 2018, and related to some simplification of requirements for listing (registries) of exchanges, which, as it was expected, would have increased the opportunities for expanding stock indices and investing from the side of institutional investors. However, financial thresholds remained high for the Ukrainian market (and significantly higher than the minimum requirements of the relevant EU legislation), which resulted in a limited positive impact of these changes.

In March, the composition of UX index basket was replenished with equities of the energy company PJSC "Turboatom", and eventually included 6 equities (4 of energy companies, one of machine building enterprise and one of the bank). The PFTS index basket, which had 7 components at the beginning of 2018 (5 components of the UX index, before the inclusion of "Turboatom" in it, as well as one of machine building enterprise and one of the telecommunication company), by the end of the year was also expanded with equities of "Turboatom" and lost equities of JSC "Motor Sich". The latter, after stopping of their trading already in April (due to the decision of the court and stopping of registration of these equities by the National Depository), were discontinued from the stock exchanges'registers (listing) of both exchanges at the end of September and transferred to the category of non-listed securities of their stock exchanges lists in accordance with the Trading Rules at both exchanges. While the UX left those equities in its index, PFTS excluded them from its own one in October.

At that in May dynamics of the two key Ukrainian indices went in different directions, which was to larger extent related to regulatory force majeure for one of the exchanges rather than to composition of index baskets or the state of the blue chips themselves. The National Security and Defense Council (NSDC) approved the decision "On Application and Revocation of Personal Special Economic and Other Restrictive Measures (Sanctions)", which was introduced by the Decree of the President of Ukraine and contained a list of legal and natural persons to whom sanctions should be applied, including "Moscow Exchange MICEX-RTS". "Moscow Exchange" in 2016 left the assets of Ukrainian exchanges, in particular of the Ukrainian Exchange (UX), but software of "ME" remained the key one for UX. In this situation, index of the Ukrainian equities of UX temporarily lost its status as a key indicator of the stock market of Ukraine (in July Bloomberg Agency ceased to publish it), and stock trades became very limited, though the stock exchange continued to calculate the index for each working day in accordance to the specially developed methodology (once a day). Thus, according to the results of the 2nd quarter, the indexes of UX and PFTS significantly differed (UX index lost 4.5%, while the PFTS index added 29.5%). Then, in July-September, both indices again showed significantly different, but in both cases the upward dynamics, and in October-December, their indicators again approached each other.

Finally, ***in the 4th quarter of 2018***, the Ukrainian stock market gave way in terms of growth only to Brazilian one, ***and by results of the whole year 2018 it was the leader among world markets (+77.5% by PFTS index and +25.1% by UX index).***

In the meantime, *macroeconomic conditions* and the geopolitical environment during 2018 provided mixed signals for investors in the local market. The National Bank of Ukraine four times raised the discount rate (from 14.5% in December of 2017 to 18% in September of 2018, which operated until the end of 2018), and explained it by the temporarily increased risks of financial stability and inflation expectations, against the backdrop of a pause in cooperation with the IMF. From the beginning of the year till September Ukraine's international reserves were mainly shrinking, but in the 4th quarter they stabilized and finally, due to the new agreement with the IMF (14-month "Stand-By" for $ 3.9 bln.), were significantly replenished and reached the level of $ 20.8 bln. This contributed to the increase of Ukraine's rating from Caa2 to Caa1 by Moody's Investors Service, among the reasons for which was the expectation of progress in reducing corruption in the course of reforms and gradual strengthening of Ukraine's stability in the "conflict with Russia".

In addition, in May, the EU Council also approved the agreement with the European Parliament on a new macrofinancial assistance package for Ukraine - another EUR 1 bln. of loans designed to cover Ukraine's financing needs for two and a half years to support economic stabilization and program of structural reform, complementing resources, which were provided by the IMF and other donors. According to the report of the European Commission on results of monitoring of implementation of the Association Agreement for 2014-18, Ukraine has made significant progress in reforms, but the EU has indicated that it should do more, in particular, to strengthen the fight against corruption.



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During 2018, both the Ukrainian government and corporate issuers successfully emerged on the international markets of capital, in particular, the vertically integrated metallurgical group “Metinvest” completed the refinancing of the largest debt in the history of Ukrainian corporations in amount of $ 2.27 bln.

In September, Ukraine gained an interim positive decision of the English Court of Appeal in a dispute between Ukraine and Russia on a loan of $ 3 bln., which was the last one, given to government of Yanukovych already in December of 2013 in the form of Eurobonds, and in November, after intensification of military confrontation with Russia in the Black and in the Azov seas, the military state was temporarily introduced in Ukraine and the treaty on friendship with Russia was terminated. The European Parliament in this situation adopted a resolution on Ukraine's efforts in reforms and on Russian aggression. But despite this, the EU supported economic cooperation with Russia in separate projects, in particular in the construction of a new gas pipeline “Nord Stream 2”, which poses significant financial and other risks for Ukraine.

In June, Ukrainian hryvnia became the world leader by its rate against the USA dollar despite the fact that other currencies of emerging markets fell as a result of the outflow of capital from them against the backdrop of increased deficits of balances of payments in these countries. In the first half of 2018, hryvnia added 7.5% against the USA dollar, being ahead of the Georgian lari and Colombian peso. In foreign markets the situation for Ukraine was favorable, as the economy of trade partners was restored and prices of raw materials were high. Nevertheless, in July-August, hryvnia lost some positions due to deterioration of the foreign trade situation and, as a result, to a significant negative balance of the current account of payment balance, which was not completely offset by financial incomes (mainly loans). So, by the end of 2018, the national currency showed +1.4% against the dollar and +5.6% against the euro.

The real GDP of Ukraine, according to the State Committee of Statistics, accelerated from 2.5% in 2017 to 3.3% in 2018, with the financial sector being one of the most dynamic (+12.4% in 2018, after +18.5% in 2017) , while inflation (CPI) slowed from 13.7% on annual basis in December of 2017 to 9.8% in December of 2018. Against this backdrop, both nominal wages (+26.2% for 2018) and real disposable income (+9.9% for the year - Ukraine was among the TOP-10 by this indicator) increased as well.

***The stock market in the 4th quarter of 2018 changed the trends of previous quarters: the total number of issues of securities on the stock exchanges decreased, despite expanding of listing, and the volume of trades on the exchanges fell***. The consolidated stock exchange list of all operating exchanges in October-December of 2018 decreased by 4.3% (after +0.8 in the 3rd quarter), and for the whole year - by 10%. At that, the number of "listing securities" (securities in stock registers) increased by 13.9% for the fourth quarter and by +6.2% for the year - at the expense of state bonds (+16.3% and +7.9%, respectively, Table 1).

*Table 1. Dynamics of Ukrainian Stock Exchange Market in Q4 2018 and 2018*

| Indicator/Date | 31.12.2017 (4 кв. 2017) | 31.12.2017 (2017) | 30.09.2018 (Q3 2018) | 31.12.2018 (Q4 2018) | 31.12.2018 (2018) | *Q4 2018 change* | *Annual change in Q4 2018* | *2018 change* |
|---|---|---|---|---|---|---|---|---|
| **Number of Securities in the listing of stock exchanges, incl.:** | **982** | **982** | **924** | **884** | **884** | ***-4.3%*** | ***-10.0%*** | ***-10.0%*** |
| **Number of securities in the registers (listing) of stock exchanges, incl.:** | **355** | **355** | **331** | **377** | **377** | ***13.9%*** | ***6.2%*** | ***6.2%*** |
| **State bonds (OVDP+OZDP)** | **331** | **331** | **307** | **357** | **357** | ***16.3%*** | ***7.9%*** | ***7.9%*** |
| **equities*** | **6** | **6** | **6** | **5** | **5** | ***-16.7%*** | ***-16.7%*** | ***-16.7%*** |
| **corporate bonds** | **12** | **12** | **12** | **10** | **10** | ***-16.7%*** | ***-16.7%*** | ***-16.7%*** |
| municipal bonds** | 0 | 0 | 0 | 0 | 0 | *x* | *x* | *x* |
| NBU deposit certificates | 0 | 0 | 0 | 0 | 0 | *x* | *x* | *x* |
| **Trading volume on the stock exchanges (total), UAH M., incl.:** | **58 610.3** | **205 796.1** | **75 077.0** | **61 608.8** | **260 870.8** | ***-17.9%*** | ***5.1%*** | ***26.8%*** |
| **State bonds (OVDP+OZDP)** | **53 224.2** | **189 555.0** | **72 379.8** | **56 663.2** | **246 474.7** | ***-21.7%*** | ***6.5%*** | ***30.0%*** |
| **equities** | **637.8** | **5 051.6** | **152.1** | **171.6** | **1 216.0** | ***12.8%*** | ***-73.1%*** | ***-75.9%*** |
| **corporate bonds** | **2 505.5** | **6 120.1** | **2 345.5** | **4 160.0** | **10 267.0** | ***77.4%*** | ***66.0%*** | ***67.8%*** |
| municipal bonds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *x* | *x* | *x* |
| NBU deposit certificates | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *x* | *x* | *x* |
| investment certificates | 18.8 | 51.8 | 10.8 | 199.8 | 272.0 | *1748.0%* | *962.6%* | *424.8%* |
| **derivatives (excl. state derivatives)** | **2 224.0** | **5 019.0** | **188.8** | **414.3** | **2 641.2** | ***119.4%*** | ***-81.4%*** | ***-47.4%*** |

*Sources: data on securities in lists of stock exchanges and trading volumes - NSSMC, stock exchanges; calculations - UAIB.*

** Taking into account depositary receipts of MHP S.A. and equities of JSC "Motor Sich" which were stopped in circulation. Excluding CIF equities and investment certificates (as at 31.12.2018 there were 5 of them in total, incl. equities of 4 CIFs and ICs of one UIF). ** As at December 31, 2018, there were five issues of municipal bonds on the exchange lists (two of Lviv City Council and three of Ivano-Frankivsk City Council), which were 'out of the listing'.*



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As at the end of December of 2018, OVDP accounted for almost 95% of the aggregate listing of stock exchanges (after 93% in September). The increase of their share was the result not only of adding of new issues of OVDP in stock registries, but also of reduction of the number of corporate instruments in them. Thus, there were only 10 *corporate bonds* in the listing at the end of 2018 (in September - 12), so both for the 4th quarter and for the year as a whole, their number fell by 16.7%. Similarly, the number of "listing" *equities* decreased from 6 in early 2018 and in the 4th quarter to 5 in December (taking into account depositary receipts of MHP S.A. and equities of JSC “Motor Sich”, which were stopped in circulation).

***The aggregate quarterly volume of trades on all exchanges in the 4th quarter of 2018 decreased by almost 18%*** (after +31.9% in Q3 2018) and amounted to ***UAH 61.6 bln.,*** 92% of which accounted *for OVDP* (96.4% in Q3 2018). The decrease of state bonds’ weight in the aggregate volume of transactions with them on the exchanges, in addition to reduced activity of their trading, was reinforced by a relatively sharp increase of trading volumes with *corporate bonds* (+77.4%, after +86% for the third quarter). Also, for the 4th quarter, the aggregate value of transactions with *equities* increased (+12.8%), although it was 73% less on annual basis (compared with the 4th quarter of 2017). This can be linked to the practically stopped bidding on the UX during July-September after application of sanctions against its software in May. In contrast, in Q4 2018 unlike in Q3 2018, volumes of transactions with *investment certificates* (+1,748%, after -56.6%) and with *derivatives* (+119%, after -68%) grew rapidly, but they had very low base of comparison.

***The volume of trades on stock exchanges of Ukraine in 2018 increased by 26.8%*** (after -13.1% in 2017) and ***amounted to UAH 260.9 bln.*** The year-on-year increase was recorded despite the fact that in the 4th quarter the annual dynamics slowed significantly compared to Q3 2018 (from +56.2% to 5.1%). As before, *state bonds* were the main driver of growth (+30% in 2018, after -10.3% in 2017). Also, due to active growth in the second half of the year, the volume of trading with *corporate bonds* in 2018 increased by 67.8% (after -35.1%). At the same time, after more than doubled growth in 2017, trading volumes with *equities* on stock exchanges in 2018 decreased by more than 4 times and were the lowest in the last 5 years.

# 2. Asset Management Industry

## 2.1. Number of AMC, CII, NPF and IC with Assets under Management

In 2018, the Ukrainian asset management industry accelerated growth: both the number of funds (CII) and the aggregate value of assets under management increased. At the same time, the **number of operating asset management companies decreased** during the year, but as at December 31, 2018 it returned to the level that was at the beginning of the year **- 296** (Chart 2).

In the 4th quarter, according to the UAIB, 5 new AMCs were created, while one was closed. The number of newly created and closed during the year companies equiled 12.

In December of 2018 there were 283 companies with funds under management (after 284 in 2017), at that they had from one to 37 funds under management, and more than 99% of all AMCs managed at least one venture CII (the same as a year ago).

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

***The number of formed CIIs that have reached the norms for minimum asset volume ("recognized" ones)*** increased for the second consecutive year **- to 1,228** (+1.6% for the 4th quarter, +5.2% for the year).

During October-December, 36 CIIs were recognized as valid (all of them were venture ones, 9 of which were PIFs, and the rest ones were CIF); for the year - 107 CII (106 venture ones), that is by one and a half times more than in 2017.

***The number of non-state pension funds (NPFs) under management*** as at 31.12.2018 remained



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**58** (excluding the NBU corporate fund), including 45 open, 7 corporate and 6 professional ones. 34 AMCs managed assets of NPFs (the year before - 35 ).

***The number of insurance companies (IC) that transferred their assets under AMC management*** in December of 2018 decreased to 2 – along with termination of activity on managing the assets of the IC by one among two AMCs that provided such services. Therefore, as at December 31, 2018, only one AMC had ICs' assets under management.

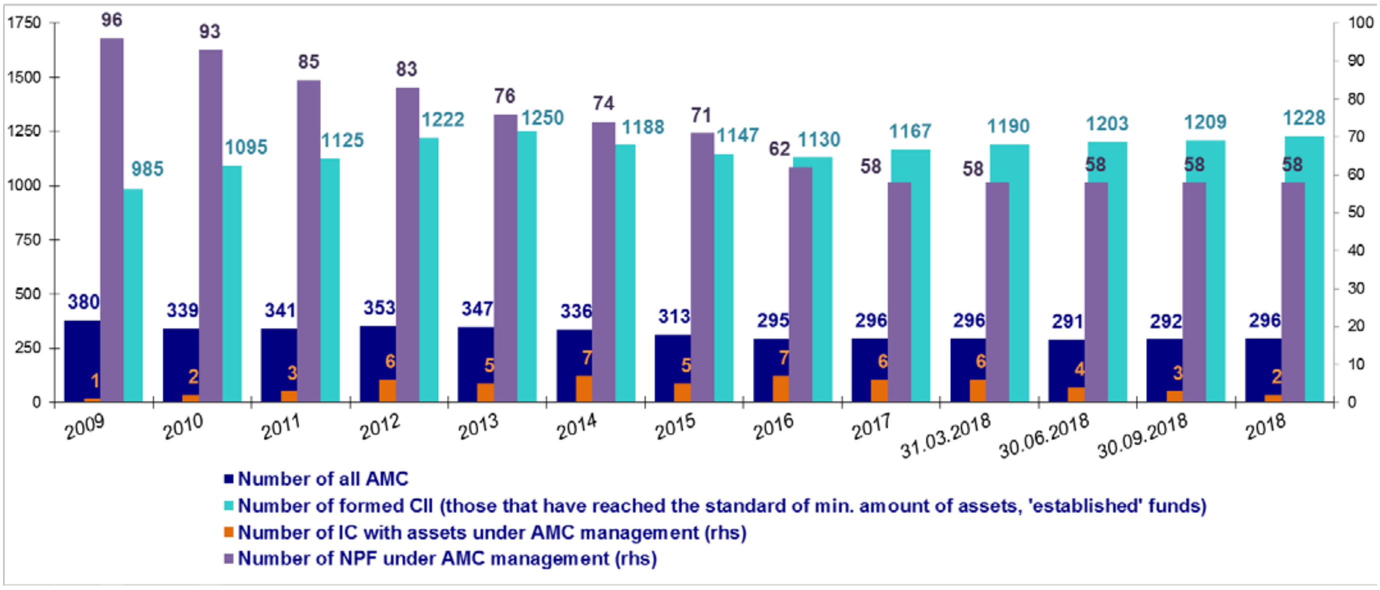


*Chart 2. Dynamics of the number of AMC and CII, NPF and IC with assets under AMC management in 2009-2018 and Q1-Q4 2018*

## 2.2. Assets under Management, CII NAV and Net Inflow of Capital in Open-Ended CII

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

In Q4 2018, ***the total assets of CII under management***, including those that have not yet reached the minimum norms for assets value, increased by more than 4.7% and for the whole year by 18.8% (after +13.4% in 2017), up to ***UAH 313,327.2 M.***

***Assets of operating CII, which were under AMC management and reached the standards ('established' CII),*** as at December 31, 2018 amounted to ***UAH 296.8 bln***. (Chart 3). In the 4th quarter they added 1.1%, and for the full year 2018 - 7.7% (after +14.5% in 2017). At that, the assets of *venture CII* in the 4th quarter decreased slightly (-1.4%) and by the end of 2018 amounted to *UAH 279,713.3 M*. (+4.8% for the year).

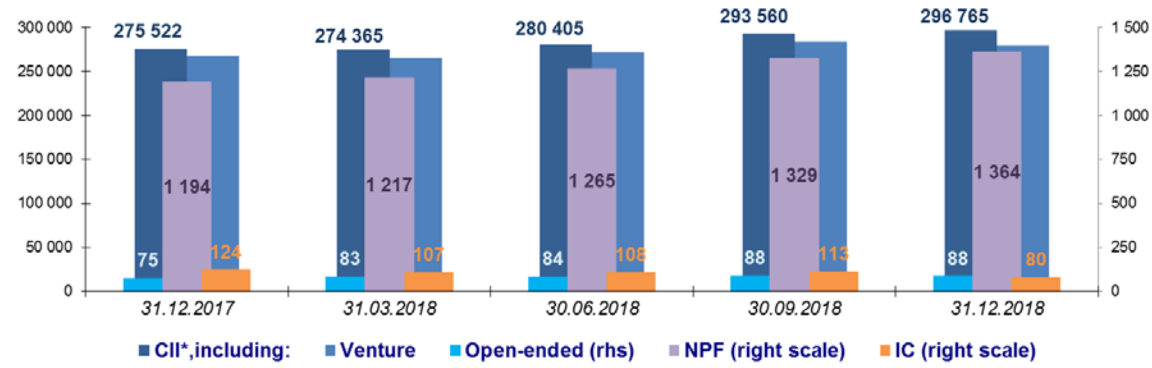


*Chart 3. Dynamics of Value of Assets under Management in Q4 2017-2018, UAH M*



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During the year 2018, the assets of recognized CII as a whole declined, after which the growth was restored, which, in particular, was contributed by an increase of the number of operating funds. Despite the decline of venture CIIs' assets as at the end of 2018, the aggregate assets of all recognized CII increased both in the fourth quarter and throughout 2018 due to the rapid increase of *closed-end CII with private placement, which was linked* to a big project in one of the funds of this category. Assets *of open-ended, interval and closed-end funds with a public offering* in the fourth quarter decreased, but for the full year 2018, the first and last ones showed a double-digit gain. This was facilitated by the rapid growth of Ukrainian stock indexes in 2018.

***The assets of NPF under AMC management*** in the 4th quarter of 2018 increased by 2.6% and for the year - by 14.3% (after +15.2% in 2017). As at December 31, 2018, they reached ***UAH 1,364.1 M.***

***Assets of IC under AMC management*** decreased by 28.9% in the 4th quarter of 2018 and by 35.2% for the year (after +127.5% in 2017). As at December 31, 2018, these assets amounted ***to UAH 80.0 M.***

As at December 31, 2018, ***the NAV of 'established' CII that have reached the norms, amounted to UAH 235 833.2 M.*** In the 4th quarter of 2018, it grew by 1.4% (after 4.2% in Q3 2018), and for the year 2018 - by 5.7% (after +18.5% in 2017). The slowdown of growth was due to some decrease of the number of closed-end funds with a private and public issue and in conditions of closing of a number of venture funds, that was not fully compensated by creation of new ones in terms of their volume of assets. Also, the uptrend was temporarily broken in the 2nd quarter by the failing dynamics of the stock market (by the UX index).

*Open-ended CII* (17 funds throughout the whole 2018) suffered a decline of net assets for the 4th quarter by 0.3% (after +4.3% in Q3 2018), but for the whole year they added 16.6% (after +29.6% in 2017). As at December 31, 2018 they reached *UAH 87.6 M*. The annual growth was facilitated by both the increase of stock indexes and by the inflow of capital into funds from the beginning of 2018. The slight decline of the sector's NAV at the end of the year was due to the net outflow that prevailed in the second half of the year and which was not fully compensated by funds at expence of increased value of their investment portfolios, in conditions of modest increase of stock indexes during this period.

***The total net capital movement in open-ended CII in the 4th quarter of 2018*** was negative, but fell to –***UAH 0.3 M.*** (from UAH -1.5 M. in Q3 2018, Chart 4). Net outflow of capital from funds of open-ended type with public offering was characteristic at this time also for foreign markets, in particular in the EU.

***The annual movement of capital in 2018 in open-ended CII*** remained positive for the second year in a row, and even somewhat accelerated year-on-year, compared to 2017, ***to UAH 3 M.*** (from UAH 2.2 M.), although it declined from the third quarter (UAH 3.5 M., Chart 5).

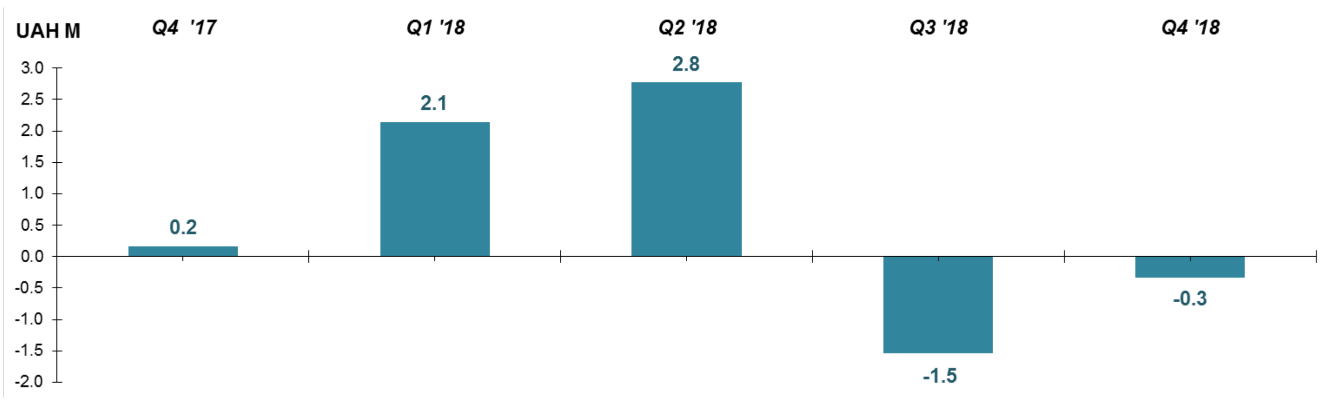

*Chart 4. Net inflow/outflow of capital in open-ended CII in Q4 2017-2018*


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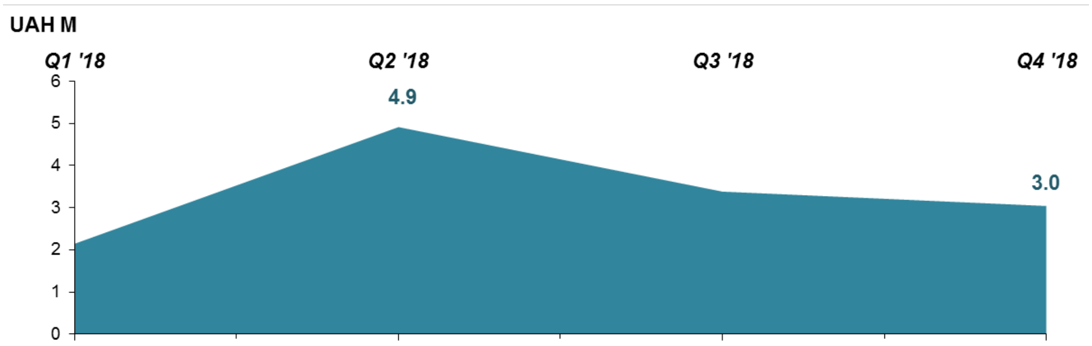


*Chart 5. Net inflow/outflow of capital in open-ended CII in 2018, quarterly, accumulated YTD*

For more detailed information on the results of the asset management of CIIs, NPFs and ICs, please see the respective Reviews of these sectors, which will be published on the UAIB website.

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