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1. Stock Markets: Ukraine and the World

Year 2017 was favorable for the global stock markets - both for developed ones and, especially, for emerging stock markets. The latter ones grew, in particular, in the context of rising commodity prices, while for a number of markets, in particular for Asian and American ones, the fourth quarter was the most favourable (Chart 1).

American equities continued their strong upward trend of the last year, supported by the Fed's expected gradual steps towards moderate raising of rates, against the backdrop of optimistic forecasts for the USA economy's growth for the next year and low inflation. Optimism of investors was encouraged and pushed up by key indices and tax changes, which were introduced by the new administration of the country in 2017.

During the year, European markets have been trying to assess the impact of the upcoming Brexit, reacting sensitively to negotiations between the EU-27 and the Great

Britain on the format for further relations after the withdrawal of the latter from the bloc in 2019. Negative impact of disintegration on the economies of both sides, and especially on the British one, becomes the further, the more obvious. Expectations of losses in the financial sector of the country limited the impact of further pound of sterling's lowering on the attractiveness of the exporters' equities, so the UK's main index showed a relatively slight increase over the year. However, it received a significant part of the annual growth in the 4th quarter, when the first treaties of the country with EU on terms of the Brexit agreement were reached, which reduced uncertainty for investors. Other key EU markets - and the expected main beneficiaries of transformation of the EU-28 into EU-27 - France and Germany, grew more strongly in 2017, although their results of the fourth quarter were much weaker, against the backdrop of domestic political developments.

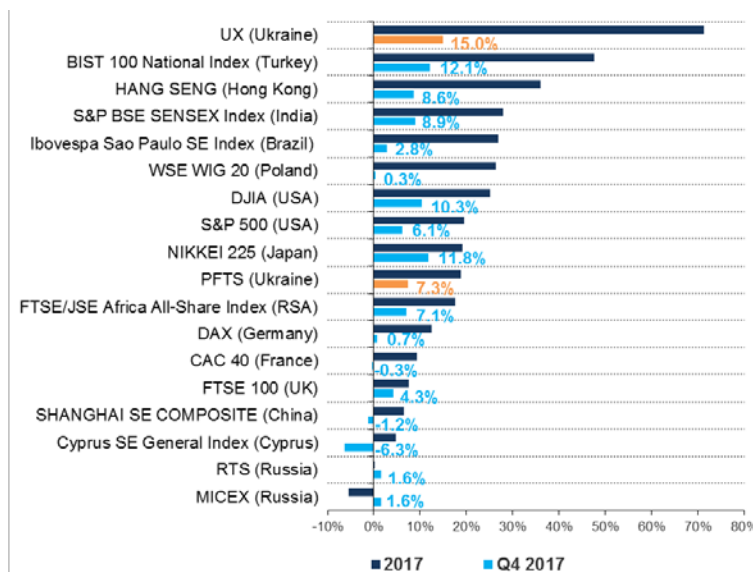


Chart 1. National markets' stock indexes' dynamics in Q4 2017 and 2017*

*Based on the data of exchanges and Bloomberg Agency. Ranking is based on annual indicator, values are given for Q4 2017



Continued geopolitical conflicts and associated with them EU's and the USA's sanctions policies (in particular, with regard to Syria, Iran, North Korea and Ukraine) were among factors of volatility in 2017, as well as trade wars (in particular with China), that threatened to start as a result of President Trump's statements.

At the same time, despite the USA's refusal to participate in the Paris Climate Compact, the theme of "responsible" or "sustainable" investments related to the containment of climate changes' negative impact on the planet, energy saving, creation of positive social changes and improvement of management systems in companies from different sectors, acquired strength during the year (that is, with "ESG" - factors). The market of "green" bonds attracted more and more attention in the world and actively grew.

The Asian markets in 2017 partially reversed the losses of the previous year. *Chinese equities* have been moving by moderately ascending trajectory since the second quarter of 2016, in conditions of cautious policy of the country's central bank concerning cross-border movements of capital and attempts to continue further to attract foreign investors through various controlled channels of their access to China's domestic financial market. MSCI, the world's largest provider of capital market indices, announced in mid-2017 that some of China's largest companies would be included in its MSCI Emerging Markets Index since June 2018, which was positively perceived by global investors. Leading *Japanese equities*, the same as in 2016, rose sharply in the fourth quarter after stabilization of political situation as the result of parliamentary elections. Throughout the whole year 2017, they were among the leaders of developed markets by annual yield, which, however, fell from 28.6% in the 2nd quarter to +19.1% in December. Among the world's leaders of growth on stock markets in 2017 there were Turkey (+47.6%) and Hong Kong (+36.0%).

Russian indices rose moderately in the second half of the year, after subsiding in the first half of it; this strongly correlated with the dynamics of energy prices, in conditions of prolonged sanctions by the United States, the EU and other countries for actions in Ukraine and Syria. By the end of 2017, they had returned to the level at its beginning (+0.2% by the RTS dollar index) or dropped below (-5.5% by MICEX ruble index).

Dynamics **of the Ukrainian market** during 2017 was almost steadily rising; and optimistic environment was created, in particular, by news about strengthening of Ukraine's positions on international markets, including a significant increase in exports to the EU, and access to the global market of capital with

attraction of USD 3 bln. in September of 2017 in "long" Eurobonds, which took place for the first time since 2013 and was made at historically the most advantageous terms (with regard to rates and maturity). Restructuring of the NJSC "Naftogaz" and its subsequent legal victories over Russian "Gazprom", which substantially offset the risk of default for Ukraine also provided support to state finances.

In May of 2017, the Government announced the accession of Ukraine to the Global Register of Beneficiary Owners, and thus it became one of the first European countries, which discloses information about beneficiary owners in the state (public) register and passes it to the global register.

The National Bank, from its side, continued to relax the currency restrictions and prepare markets for liberalizing of capital flows, gradually removing administrative barriers for investing both in Ukraine and abroad. In 2017, it concerned, in the main, retail investors (individuals) as well as banks, which invest in high-ranking Eurobonds, and for the future, markets also expect from the regulator implementation of legally foreseeable opportunities for hedging and assets diversifying through investment abroad.

In 2017, regular changes to the legislation were introduced in order to simplify the process of foreign investment in Ukraine, in particular, to the Tax Code concerning abolishment of taxation of income, which was received by non-residents on government and municipal bonds of Ukraine, which was approved and promptly put into effect in September.

The stock market regulator (NSSMC) also took some steps in this direction: at the end of the year it approved changes in the regulation of stock exchanges and of the depository system in relation to admission of foreign issuers' securities for trading on Ukrainian stock exchanges. The list of leading world exchanges, where these securities have to be traded for obtaining the right of admission for trading on Ukrainian stock exchanges, has also been updated - in fact, allowing not only "dual listing" of enterprises, which are actually Ukrainian ones, but formally have foreign jurisdiction, but also of truly foreign companies. These new rules, together with other changes in the regulation of the Ukrainian stock market's infrastructure, which have to be put into effect in 2018, are intended to enhance the opportunities for local investors, in particular institutional ones, and promote integration of the Ukrainian market of capital into international markets.

During the year, the NSSMC continued to prepare for transition to regulation and supervision of the



Ukrainian stock market in accordance with the EU's rules, introducing some changes to its normative acts, which strengthened or detailed requirements for professional participants. At the end of the year, plans on implementation of the Association Agreement between the EU and Ukraine in relevant areas in 2018 were approved.

Among the key legislative changes in this period there was also weakening of requirements for diversification of investment and pension funds' portfolios (CII and NPF) in terms of investing in over-the-counter securities and permitting trading in stock exchanges by equities of large private joint stock companies (under certain conditions), which became forced consequence of the previous tightening of the requirements to JSC and to "listing companies". These changes were approved by Law No. 2210-VIII of 16.11.2017 (effective from 2018).

Other important for the market legislative innovations were adopted in March and effective from June amendments to legislation concerning increasing of the corporate governance level in joint stock companies in accordance with the law No. 1983-VIII, which introduced the "squeeze-out" mechanism, referring to the EU Directive on takeover offers. This triggered a wave of decisions of joint stock companies, a number of which were blue chips on stock exchanges, concerning the forced redemption of their equities; this adversely affected activities of investment funds in conditions of limited choice of quality instruments for investment.

In October, amendments to the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" No. 2164-VIII were approved; they will come into force in 2018, and, in particular, introduce the concept of "public interest enterprise" – issuers, whose securities are admitted to stock trading, banks, insurance companies,

non-state pension funds, other financial institutions (except for other financial institutions and non-state pension funds, which belong to micro-enterprises and small enterprises) and enterprises, that according to this Law, belong to large enterprises.

One can also consider as important the adopted on 21.12.2017 reform of the audit in accordance with the Law of Ukraine "On Audit of Financial Reporting and Auditing" No. 2258-VIII, which is intended to transpose the requirements of the EU's legislation in this field - its norms are to be introduced gradually in 2018 - 2019 - and significantly increase the requirements for auditors, who work with professional stock market participants.

Ukrainian stock market in 2017 rallied by 71% (by UX index), thus adding almost 100% over the past two years and 50% in 2014-17. There were no significant changes in the index basket of the key index of Ukrainian equities (UX) in this year - it included 5 equities (3 energy companies, one - machine-building enterprise and one bank). The PFTS index, having grown by 18.5% for the year, lost three components (at the end of 2017 there were only 7 of them - all components of the UX index, one machine building enterprise and one telecommunication company).

As for dynamics of exchange trades in 2017, the decrease in the number of securities in the listing (registries) of exchanges in 2017 was changed by growth, but only at the expense of government bonds, while the number of "listing" corporate instruments (equities and bonds) continued to decrease, albeit by slower pace, approaching zero. Significant reduction of stock exchanges' lists and volumes of trade also continued - first of all in corporate bonds, while the trade in equities sharply increased (Table 1).

Table 1. Dynamics of Ukrainian Stock Exchange Market in Q4 2017 and 2017

Indicator/ Date	31.12.2016 (Q4 2016)	31.12.2016 (2016)	30.09.2017 (Q3 2017)	31.12.2017 (Q4 2017)	31.12.2017 (2017)	Q4 2017 change	Annual change in Q4 2017	2017 change (YoY)
Number of Securities (CB) in the listing of stock exchanges, incl:	1631	1631	964	982	982	1.9%	-39.8%	-39.8%
Number of securities in the registers (listing) of stock exchanges, including:	313	313	296	355	355	19.9%	13.4%	13.4%
OVDP	274	274	263	331	331	25.9%	20.8%	20.8%
equities*	7	7	6	6	6	0.0%	-14.3%	-14.3%
corporate bonds	26	26	20	12	12	-40.0%	-53.8%	-53.8%
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) for the year, UAH mln, including:	68 232.6	236 953.3	48 058.4	58 610.3	205 796.1	22.0%	-14.1%	-13.1%
OVDP	63 717.1	211 257.2	41 616.6	53 224.2	189 555.0	27.9%	-16.5%	-10.3%
equities	651.9	2 180.0	3 576.6	637.8	5 051.6	-82.2%	-2.2%	131.7%
corporate bonds	3 032.2	9 433.7	1 936.2	2 505.5	6 120.1	29.4%	-17.4%	-35.1%
municipal bonds	0.0	0.0	0.0	0.0	0.0	x	x	x
NBU deposit certificates	0.0	11 376.8	0.0	0.0	0.0	x	x	x
investment certificates	21.5	395.3	13.9	18.8	51.8	35.3%	-12.5%	-86.9%
derivatives (ex. state derivatives)	745.8	2 219.1	915.0	2 224.0	5 019.0	143.0%	198.2%	126.2%

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

* Including MHP S.A. Depository Receipts. Excluding CIF equities and investment certificates (as at 31.12.2017 there were 6 of them in the 2-nd level of listing – equities of five CIFs and IC of one UIF).



Lists of securities on all stock exchanges of Ukraine in 2017 decreased by 40%, to 982 instruments (after -27% in 2016), and listing of exchanges, that is, stock registers (the 1st and the 2nd levels of stock exchanges' lists) - grew by 13% - for the first time since at least 2013 (after 44% reduction in 2016). This was due to *OVDP*, the number of which in listing increased in 2017 by 20.8%, to 331 (after +3.4% in 2016). At that, the number of "listing" *equities* fell by 14% for the year - to 6 (after -77% in 2016), and of *corporate bonds* - by 54%, to 12 (after -71%).

Despite the increase in the number of issues of government bonds, *the volume of trading* in them continued to decline in 2017 (-10.3%, after -16.6%),

although in the fourth quarter it grew - by 27.9%. Meanwhile, despite the sharp decline in the volume of trading *in equities* in October-December (-82.2%), the total value of transactions with them for the whole 2017 increased by more than 2.3 times (after falling by 2.5 times in 2016) - almost to the level of 2015. Trade on exchanges *in derivatives* was significantly more lively throughout the year. Trades with *corporate bonds* again fell by one third (-35.1%) for the year, although in the 4th quarter they increased by 29.4%.

The total volume of trading on the stock markets slowed down the year's falling - to -13.1% (after -18.5% in 2016) due to an increase in the aggregate value of transactions in the fourth quarter by 22%.

2. CII Market Performance

European context

Year 2017 continued the upward trend of the European industry of investment funds, which once again updated record values of growth rates and volume of attracted assets. **The net assets** of all funds together at the end of 2017 **exceeded EUR 15.6 trln.** (+10.1% for the year, after +6.1% in 2016), and **total net inflow** into UCITS¹ and AIF² funds amounted to EUR 949 bln., so it was more than twice higher than that of 2016 (EUR 461 bln.) and surpassed the previous record of 2015 (EUR 756 bln.)³. Finally, in 2017, assets of European investment funds reached 102% of the EU's GDP.

Net assets of UCITS funds increased by **12.0%** for the year (after +5.5% in 2016), to **EUR 9,714 bln.**, and amounted to 62.2% of all funds' NAV. **Net inflow** to UCITS reached **EUR 738 bln.** (after a modest EUR 270 bln. in 2016).

NAV of equity funds grew the fastest among UCITS' categories for the year - primarily due to favorable markets' dynamics, and the largest inflow was in bond funds - against the backdrop of a moderate and forecasted reduction of asset recovery programs and

increase of the interest rates by ECB in the EU and by the Fed in the USA, respectively.

UCITS' cross-border funds which are registered in Luxembourg and Ireland received together 71% of the total net inflow of capital into UCITS funds in the EU in 2017 (after 69% in 2016), and NAV of their registered funds amounted to almost 55% of all funds in EU.

Bond funds, which were the most popular among the UCITS funds during the year, increased their additionally attracted assets from investors by almost three times - up to EUR 316 bln. for the year (after EUR 110 bln. in 2016). In the 4th quarter of 2017, they received net EUR 75 bln. (compared with EUR 15 bln. a year ago).

Mixed funds (balanced) accelerated net inflows even more in 2017 - EUR 190 bln. after EUR 49 bln. in 2016, EUR 54 bln. of which - in the 4th quarter (compared with EUR 12 bln. in the 4th quarter of 2016).

Equity funds in 2017 regained investors' attention, after unsuccessful year 2016; this was also contributed, in particular, by growth of stock markets, - for the year they received a net inflow of EUR 159 bln. (after a net outflow of EUR 9 bln. in 2016). In the 4th quarter of 2017, they raised additional EUR 56 bln. (after EUR 39 bln. in Q3 2017 and EUR 13 bln. a year ago).

Money market funds, on the contrary, were not so popular among investors in 2017 - they attracted EUR 68 bln., after EUR 111 bln. in 2016, at that in the 4th quarter they lost EUR 3 bln. due to net outflow (after the inflow of EUR 33 bln. in the 3rd quarter and compared to an inflow of EUR 38 bln. a year ago).

¹ UCITS (Undertakings for Collective Investment in Transferable Securities) – collective (joint) investment institutions in negotiable securities traded on regulated markets; funds are open-ended with public issue and stringent requirements for quality, liquidity and asset structure, in accordance with [Directive 2009/65/EU](#).

² AIF (Alternative Investment Funds) – alternative investment funds; in fact include all other regulated funds, other than UCITS ones. Companies that manage such funds are regulated by AIFMD's Directive [2011/61/EU \(AIFMD\)](#).

³ According to data of 28 countries, associations of which are members of EFAMA (24 states- EU members, and also Norway, Switzerland, Liechtenstein and Turkey) - see [EFAMA's Quarterly Statistical Release \(Trends in the European Investment Fund Industry in the Fourth Quarter of 2017 & Results for the Full Year of 2017\)](#) on the EFAMA website <http://www.efama.org>.



Net inflow to the AIF funds in 2017 increased moderately, but also to a record **EUR 211 bln.** from EUR 191 bln. in 2016), and **net assets** of these funds kept the pace of the previous year - increased **by 7.1%**, after 7.2%, to **EUR 5,909 bln.** Almost half of these funds' NAV (48%, as in the previous year) belonged to "institutional" AIF (special funds for institutional investors), net assets of which reached EUR 2,860 bln. at the end of 2017 (+8.4% for the year, after +10.7 % in 2016).

AIFs, which are registered in Germany and Ireland, have again attracted the largest amount of additional capital, representing 68% of the total net inflow into AIFs in the EU (41% and 27%, respectively). It was Germany (28%), who also led by net assets of such funds, and along with France, which was in the second position, they had 46% of the total NAV of alternative investment funds in the EU.

By asset classes, *mixed funds* (25% by net assets) and "other" funds (32%) maintained a significant share of the AIF market. NAV of the first ones in 2017 increased by 2.9% (after +6.9% in 2016), of latter - by 16.0% (after +7.3%).

The largest net inflow in 2017 among AIFs by asset classes - EUR 130 bln. (after EUR 94 bln. in 2016) – was again received by "other funds" (in particular, by "absolute income" funds - with flexible strategies and focus on positive returns). In the 4th quarter of 2017, they received EUR 25 bln., after EUR 31 bln. in Q3 2017 and EUR 22 bln. a year ago.

AIF mixed funds received EUR 43 bln. in 2017 (after EUR 64 bln. in 2016), *AIF equity funds* - EUR 27 bln. (after EUR 10 bln.), and *AIF bond funds* lost EUR 14 bln. in 2017 (after an inflow of 18 bln. in 2016), with a significant outflow in the 4th quarter – EUR 37 bln.

Ukrainian Realities

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

Ukrainian institutional investors' assets management industry stabilized somewhat in 2017, after moderately negative trends in previous years, and showed growth: total value of assets under management as well as the number of funds (CII) increased.

As at December 31, 2017, there were **296 asset management companies acting in Ukraine**. During the year, the number of AMCs varied: some times it rose to the level of 300, and then declined again (Chart 2); finally, it decreased in 2017 overall by one company (after

-18 in 2016). At that, closure of a number of companies somewhat intensified during the year, the same as entry to market of new AMCs. In the 4th quarter, 6 companies were liquidated (came out from UAIB), and two new ones entered the market.

In December of 2017, there were 284 companies with existing assets under management (after 279 - in 2016), at that the number of managed by them funds varied from one to the 31, and 99% of all AMCs managed at least one venture CII (a year ago - 96%).



Chart 2. Dynamics of the Number of AMC and CII in 2009-2017

Number of registered collective investment institutions in 2017 increased for the second consecutive year - +76 funds (after +58 in 2016), to 1,701.

In 2017, the number of CII that reached the minimum asset size ratio continued its growth, to which it came back in the 4th quarter of 2016, and reached 1,160 funds (Table 2). In annual terms,



growth occurred for the first time since 2013 (+2.7%, +30 funds, after -1.5%, or -17 funds in 2016).

During October-December, 13 CII (all – venture ones) were recognized as valid, for the year - 71 (69

venture funds); this corresponds practically to the dynamics of 2016.

Table 2. Dynamics of the Number of CII that Have Reached Compliance with Standards, by Types and Legal Forms

Date/Period	Total	UIF*									CIF*		
		O*	Os*	I*	Is*	CD*	CNN*	Cs*	Cq*	CV*	I*	CNN*	CV*
31.12.2016	1130	15	5	21	3	4	28	1	0	765	0	55	233
31.03.2017	1143	14	5	21	3	4	28	1	0	768	0	55	244
30.06.2017	1157	14	5	21	3	4	29	1	0	773	0	52	255
30.09.2017	1153	14	5	21	3	4	31	1	1	765	0	52	256
31.12.2017	1160	14	5	20	3	4	31	1	1	748	0	53	280
Q4 2017 change	7	0	0	-1	0	0	0	0	0	-17	0	1	24
	0.6%	0.0%	0.0%	-4.8%	0.0%	0.0%	0.0%	0.0%	0.0%	-2.2%	-	1.9%	9.4%
2017 change	30	-1	0	-1	0	0	3	0	1	-17	0	-2	47
	2.7%	-6.7%	0.0%	-4.8%	0.0%	0.0%	10.7%	0.0%	-	-2.2%	-	-3.6%	20.2%

*UIF - Unit Investment Funds, CIF - Corporate Investment Funds; O – open-ended diversified CII, Os – open-ended specialized CII, I – interval diversified, Is – interval specialized, CD – closed –end diversified, CNN – closed-end non-diversified non-venture, Cs – closed-end specialized, Cq – closed-end qualified, CV – closed-end non-diversified venture CII.

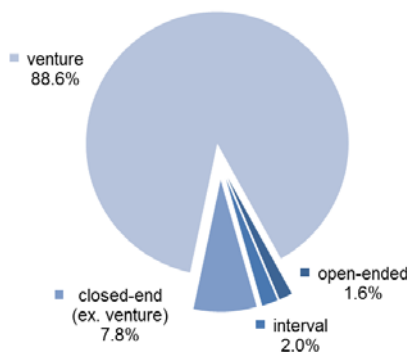


Chart 3. CII that Have Reached Compliance with Standards, by Types of Funds, as at 31.12.2017

Venture funds, as before, were leading not only by the number of new CII that have reached normatives, but also by number of those ones, which were closed, although the total number of acting recognized venture funds in 2017 increased more than it was in 2016 – by 30 (against 6) - **up to 1,028** (+3.0%, after +0.6%). At that, the number of *venture UIFs* decreased for the year by 17 funds both in the 4-th quarter and in 2017 as a whole (-2.2%, after -4.7% in 2016), to 748. Increase in the number of *venture CIFs* continued at almost the same pace as in the previous year, in conditions of growing popularity among investors of exactly corporate form for venture CII: in 2017 they increased by 47 (+20.2%, after +23.3% in 2016), including 24 funds - for the 4th quarter.

In other sectors of CII by fund types, no significant changes occurred in 2017. **Number of open-ended and interval diversified UIFs** became less by one (-6.7% and -4.8%, respectively) – totally, **14 and 20 of such CII**, respectively. **Number of acting closed-**

end diversified funds, as well as of specialized funds of all types in 2017 did not change, while the number of **closed-end non-diversified UIF** increased by 3 funds (+10.7%) **to 31**, and of **CIF** - decreased by 2 (-3.6%), to **53**.

In the 3rd quarter, **one closed-end qualified fund (UIF)** was recognized - the first one in this category, created in accordance with the Law "On CII", which entered into force in 2014. Thus, totally there were 10 specialized and qualified CII that had reached the standards by the end of 2017.

Number of CII with public issue in 2017 also increased for the first time since the onset of the financial crisis, and by the end of the year **it was 95** (+3, 3.3%, after -12.4% in 2016). Number of AMC managing such funds remained 40.

The largest one was the number of public funds of *closed-end type*, due to which this sector has expanded, namely, the number of *non-diversified funds*, - totally 50 funds and 52.6% of all CII with public issue (Table 3, Chart 4).



Table 3. CII with Public Issue in Q4 2017 and 2017

CII Type	Total	Open-ended			Interval			Closed-end			
		D*	S*	Total	D*	S*	Total	Д*	N*	C*	Total
31.12.2016	92	14	5	19	20	3	23	3	46	1	50
31.03.2017	92	14	5	19	20	3	23	3	46	1	50
30.06.2017	93	14	5	19	20	3	23	3	47	1	51
30.09.2017	94	14	5	19	20	3	23	3	48	1	52
31.12.2017	95	14	5	19	19	3	22	3	50	1	54
Q4 2017 change	1	0	0	0	-1	0	-1	0	2	0	2
	1.1%	0.0%	0.0%	0.0%	-5.0%	0.0%	-4.3%	0.0%	4.2%	0.0%	3.8%
2017 change	3	0	0	0	-1	0	-1	0	4	0	4
	3.3%	0.0%	0.0%	0.0%	-5.0%	0.0%	-4.3%	0.0%	8.7%	0.0%	8.0%

* D - diversified, S - specialized, N - non-diversified.

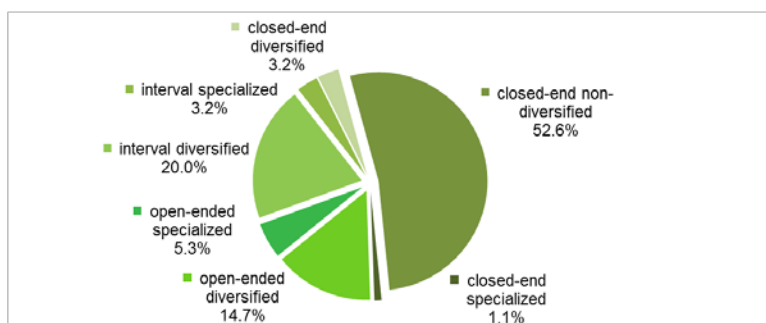


Chart 4. CII with Public Issue as at 31.12.2017

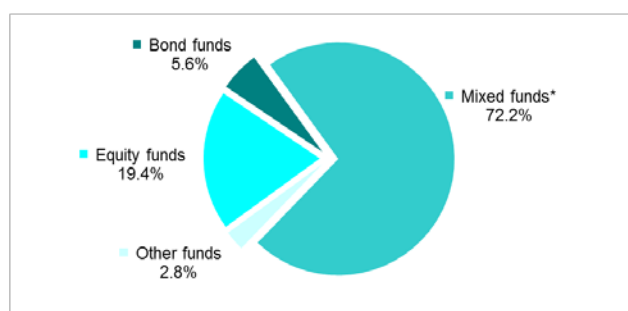
Table 4. Dynamics of the Number of Diversified CII with Public Issue by Fund Classes (Accordingly to the Structure of Assets)

Date/Period	Total	Equity funds	Bond funds	Mixed funds*	Money market funds	Other funds
31.12.2016	34	4	2	27	0	1
31.03.2017	36	8	5	16	0	7
30.06.2017	38	6	6	19	0	7
30.09.2017	36	5	3	26	0	2
31.12.2017	36	7	2	26	0	1
Q4 2017 change	0	2	-1	0	0	-1
	0.0%	40.0%	-33.3%	0.0%	-	-50.0%
2017 change	2	3	0	-1	0	0
	5.9%	75.0%	0.0%	-3.7%	-	0.0%

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

For more about fund classes please, see:

<http://www.uaib.com.ua/rankings/byclass.html>



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

Chart 5. Diversified CII with Public Issue by Types of Funds as at 31.12.2017

There were 36 diversified CII with public issue at the end of 2017. According to the classification based on the structure of assets ⁴, there were 7 equity funds (3 open-ended and 4 interval

diversified CII), ie 3 more funds than at the beginning of the year. Three of these funds belonged to equity funds already at the beginning of the year, and two others - from the 1-st quarter. Two interval funds remained as bond funds as at 31.12.2017; one of them belonged to this

⁴ See *CII Rankings (by fund classes)* on UAIB website: <http://www.uaib.com.ua/eng/analituaib/rankings/ici.html>.



class already at the beginning of the year, and the second one - from the 2nd quarter.

Number of mixed investment funds (assets) ranged during the year between 16 and 27, and at the end of December fell to 26. At the end of the year, these funds covered more than 72% of the sector of diversified CII with public issue, after 80% in 2016 (Table 4, Chart 5).

Number of "other funds", that is, those that did not meet the criteria for the classes of equity, bond and mixed investment funds, grew from one at the beginning of the year to 9 in the 3rd quarter, and returned to one by the end of 2017 – of already another fund (open-ended, instead of interval in 2016).

In the breakdown of AMC's by regions (Chart 6), in 2017, the share of Kyiv and its region increased to 73.0% with an increase in the number of companies by 5, to 216 (after -13 in 2016).

The share of the Dnipro decreased to 6.4%, with a decrease in the number of AMCs in this city and its

region by 2, to 19. *Odessa's weight* fell too - to 2.4%, with decreasing number of companies by 2, to 7. At the same time, the share of *Kharkiv*, with the emergence of a new AMC (totally 19 at the end of the year), rose to 6.4%, while the *Lviv's* one - with the number of companies that has remained unchanged for the year, but, however, decreased by one in the 4th quarter (to 8) – also almost did not change (2.7%).

Other regions of Ukraine, outside of Top 5, had one AMC less by the results of 2017 (27) and continued to reduce their share in the total number of companies in Ukraine - to 9.1%. The number of AMC registered in the *Poltava region* for the year decreased from 4 to 3, in *Ivano-Frankivsk* - increased from 4 to 5, and in regions of *Zaporizhzhya* and *Donetsk* - remained unchanged. Accordingly, these four regions together, as well as a year ago, covered about 5.4% of all AMCs.

So, the regional concentration of industry in 2017 intensified again in favor of Kyiv, and also shifted somewhat to the western regions of Ukraine.



Chart 6. Regional Distribution of AMC Number as at 31.12.2017

In breakdown of CII by number of funds in 2017, weight of the capital's region also increased - to 73%. At that, the number of funds under management in Kyiv and its region increased by 4.4%, to 899. Kyiv also led by the number of venture CII under management, although its share was somewhat lower (71%), with 657 funds of this category, whereas the number of other CII here was relatively higher - almost 80% of all funds (except venture ones) in Ukraine as at December 31, 2017 (242 funds), and of NPF - even more - 81%, that is, 47 funds (Chart 7).

By CII assets under management, Kiev held a solid leadership, although its share decreased insignificantly - to 80.2%. *Dnipro* and *Kharkiv* remained in the second and third positions with 7.6% and 4.6%, despite the fact that their weights also dropped a little over the year. At the same time, *Lviv* increased it to over 2.5%, closing Top-5 (Chart 7). The total value of assets under management in all leading regions in 2017 increased, and redistribution of shares took place due to different relative rates of this growth.

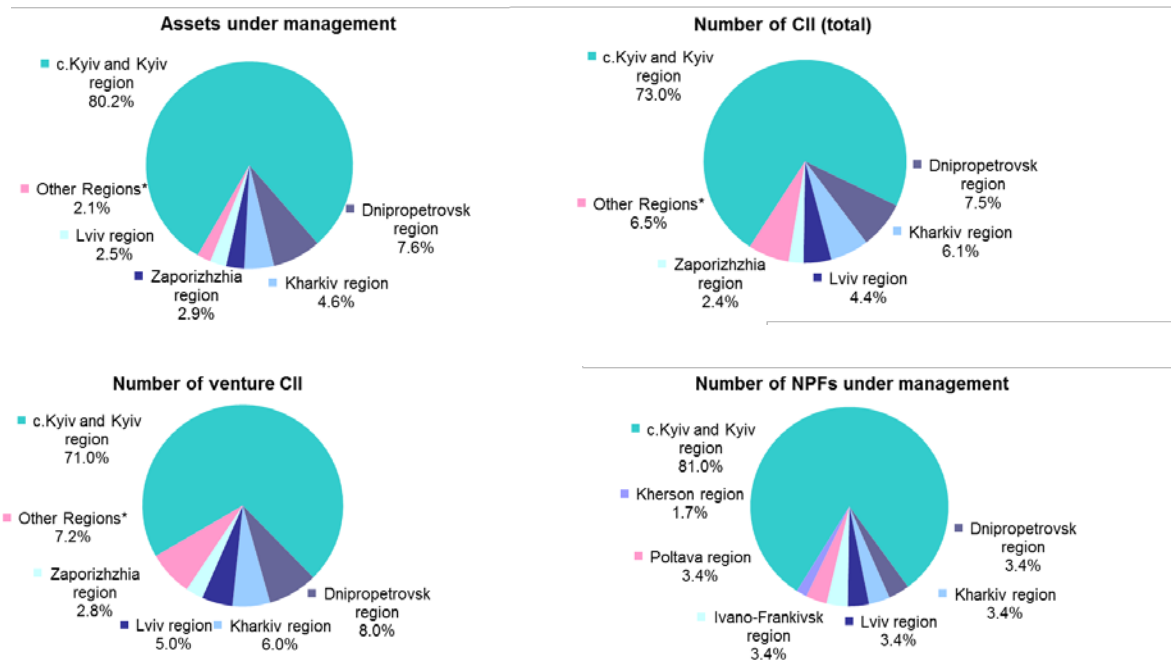


Chart 7. Regional Distribution of CII, NPF and Assets under Management as at 31.12.2017

2.2. Assets and Net Assets of CII

The total aggregate CII assets, which were under AMC management and reached the standards, as at December 31, 2017, amounted to UAH

263.5 bln. (Chart 8). In year 2017, they returned to growth - increased by 14.5% (after -2.5% in 2016).

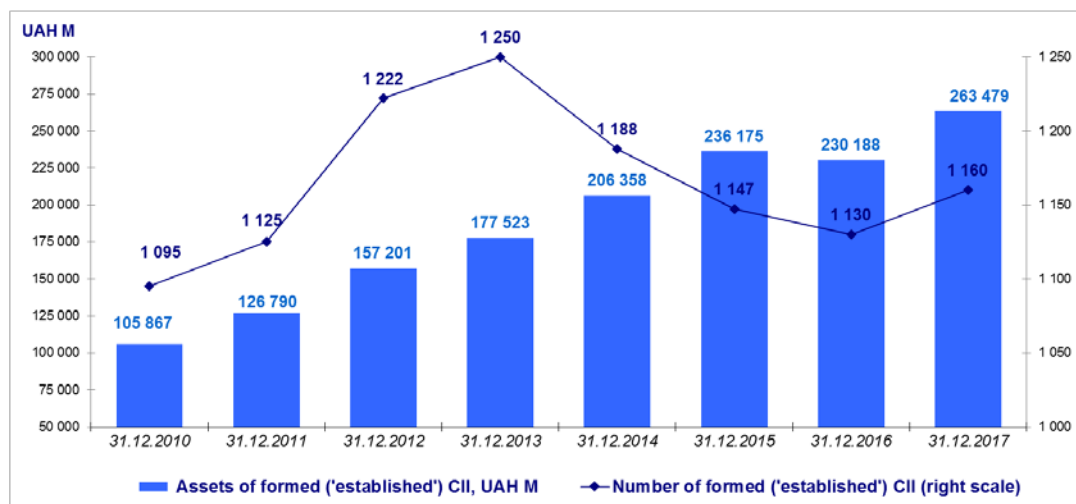


Chart 8. Dynamics of CII Asset Management Market in 2010-2017

The ratio of CII assets to Ukraine's GDP in 2017 decreased for the third consecutive year (from 2014) - to 8.8%, against the background of growth of nominal gross domestic product by 25.2%, which far outpaced the growth of assets in the industry of funds (Chart 9).

The ratio to the assets of Ukrainian banks, on the contrary, increased - to 19.7%⁵ - because bank assets, although increased in 2017, but at a slower pace than the assets of the CII. Thus, this ratio was historically the highest one in this year.

⁵ According to the updated data regarding the assets of banks as at 31.12.2017. Sources.: State Statistical Service of Ukraine <http://ukrstat.gov.ua>, National Bank of Ukraine: https://bank.gov.ua/control/uk/publish/article?art_id=34661442; Data and calculations on CII - UAIB.

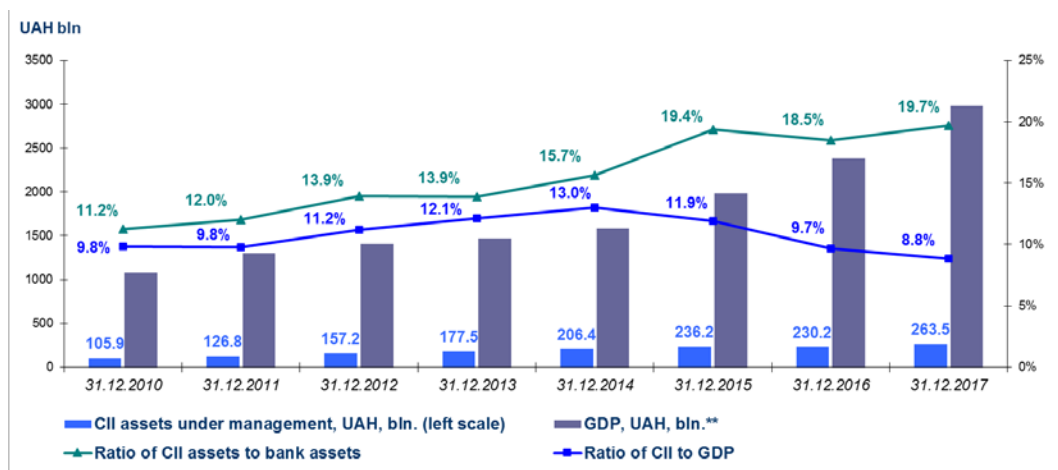


Chart 9. Dynamics of CII against GDP and Bank sector of Ukraine in 2010-17

During 2017 the assets changed in different directions, but in the 4th quarter they increased - by 5.8%. As in 2016, only assets of *CII with a public issue* diminished - *at the expense of funds of closed-end* –type - while open-ended, interval and *closed-end funds with private issue* in 2017 (as well as in the 4th quarter) increased. In particular, this was facilitated by the rapid growth of the stock market, as well as by the inflow of capital from investors, in particular, to open-ended and venture CII.

In 2017, **venture CII** increased by UAH 32,819.4 mln., or 14.8% (after -1.5% in 2016), to UAH

254,957.9 mln. In the 4th quarter they added UAH 14,104.5 mln., or 5.9%.

Open-ended and interval CII increased in the 4-th quarter by 4.5% and 3.8%, respectively, and for the year - by 29.3% and 20.7%. **Closed-end CII with public issue** in October-December of 2017 added 7.3%, **and funds with private issue** - 2.2%, while the first ones lost 1.9% for the whole year (due to contraction of the sector in the 2nd quarter), and the second ones - increased by 9.6%. Total assets of **non-venture CII** for the 4th quarter increased by 3.8%, in 2017 - by 5.9%, to **UAH 8,521.5 mln.** (Chart 10).

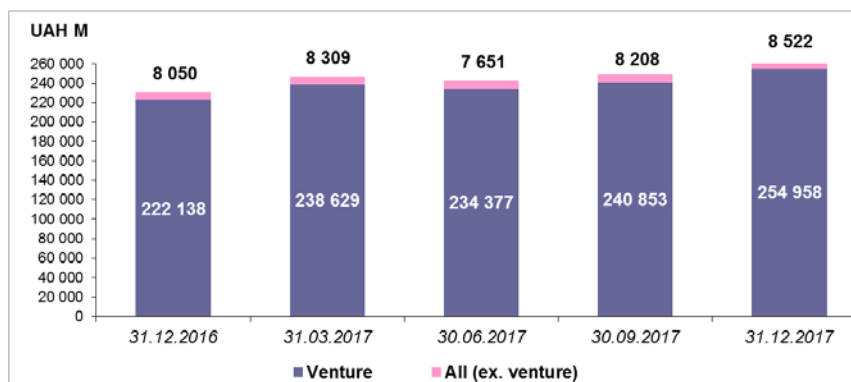


Chart 10. Dynamics of CII Assets Value in Q4 2017 and 2017

Net CII asset value in 2017 also upgraded the record at the level of UAH **213,441.3 mln., after increase by 13.3%** (-5.8% in 2016), adding 4.4% in the fourth quarter (table 5). The change of the dynamics for positive one occurred despite a slight decrease in the total number of reporting funds: in 2017 it decreased from 1,031 to 1,026, although of venture funds - grew from 915 to 919.

NAV of open-ended CII, as well as their total assets, grew for the second consecutive year and with the highest rates among CII sectors by type of funds (+29.6%,

after +5.1% in 2016), at that growth in net assets was somewhat ahead of total assets, that indicates a certain improvement in the structure of the latter ones (reduction of the obligations' share). In the 4th quarter, the sector grew by 4.5% by net assets and reached **UAH 74.8 mln.**

NAV of interval funds added 20.5% in 2017 (after falling by 26.1% in 2016) and 4% in the 4th quarter, with a decrease in the number of funds in the sector by one, as well as among open-ended CII. At the end of the



year, net assets of these funds amounted to **UAH 78.4 mln.**

Closed-end funds with private issue (excl. venture ones) grew by NAV by 12.9% in 2017 (after falling by 21.4% in 2016), **and venture ones** - by 13.6% (after -4.9%), while **closed-end CII with public issue** fell by net assets by 2.4% (after falling by 26.0% in 2016).

This happened against the background of decreasing number of funds which filed reports among public closed-end CII and slight increase - among private ones, in particular, of venture funds.

Total NAV of **non-venture CII** for the fourth quarter increased by 3.1%, in 2017 - by 7.7% (after -22.9% in 2016) to **UAH 8,256.6 mln.**

Table 5. Dynamics of CII NAV by Fund Types in Q4 2017 and 2017, UAH M

Funds	31.12.2016	31.03.2017	30.06.2017	30.09.2017	31.12.2017	Q4 2017 change	2017 change
Open-ended	57.72	61.04	63.98	71.59	74.82	4.52%	29.63%
Interval	65.01	66.41	67.03	75.34	78.36	4.02%	20.53%
Closed-end (ex.venture)	7 546.19	7 810.63	7 365.23	7 859.91	8 103.44	3.10%	7.38%
with public issue	2 712.57	2 738.99	2 396.40	2 485.80	2 646.68	6.47%	-2.43%
with private issue	4 833.62	5 071.64	4 968.83	5 374.11	5 456.76	1.54%	12.89%
All (ex. venture)	7 668.93	7 938.08	7 496.25	8 006.84	8 256.63	3.12%	7.66%
Venture	180 662.63	196 591.52	191 590.39	196 396.18	205 184.65	4.47%	13.57%
All	188 331.56	204 529.59	199 086.64	204 403.02	213 441.28	4.42%	13.33%

* Acting CIIs that have reached the minimum asset size (which were recognized as such by NSSMC), are managed by the AMC and reported for the relevant period (as at the reporting date).

Doubling in growth rate of venture CIIs' NAV in comparison with other sectors in 2017 led to a further increase in the weight of the first ones in the aggregate NAV of CII - to 96.1% (Chart 11). At that, the growth of

net assets of open-ended and interval funds by more than 20% for the year allowed them to increase their even a small market share to 0.04% for each of these sectors.

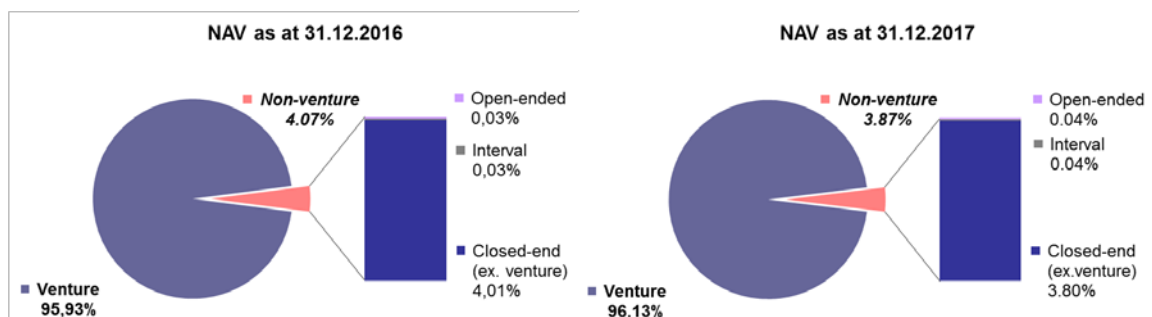


Chart 11. CII NAV Breakdown, by Fund Types, at the Beginning and at the End of 2017

At least three times slower growth of the NAV of closed-end funds (venture excluded) compared to open-ended and interval CII in 2017 also contributed to an

increase in the share of two latter ones in the aggregate NAV of non-venture CII and brought it closer to 1% for each sector (Chart 12).

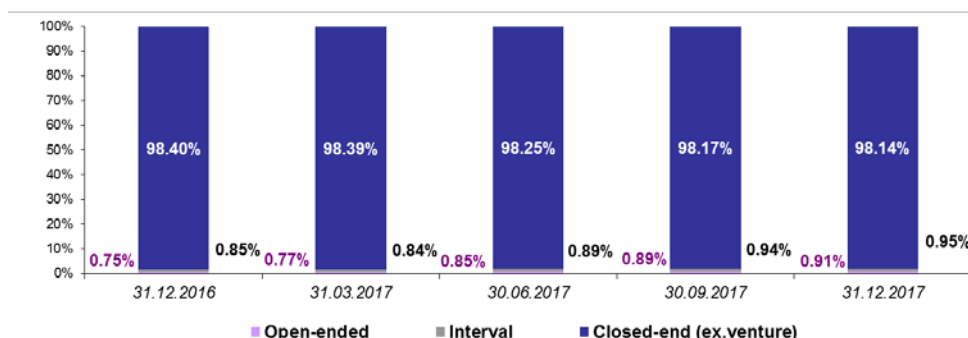


Chart 12. Dynamics of Non-Vventure CII NAV Breakdown, by Fund types in Q4 2017 and 2017



2.3. Net Flow of Capital in Open-Ended CII

Fast growth of Ukrainian stock market during 2017, in particular of the UX index, along with decrease of profitability of other areas of investment outside the market of securities, contributed to extension and strengthen of growth of open-ended CIIs' assets, in particular, due to net inflow to them. In 2017, movement of capital was **positive for the first time since the beginning of the financial crisis - over the last decade.**

By results of the entire 2017 net inflow of investors' assets amounted to 12.7% of increase in open-ended CIIs' NAV, that has completed transition from the significant negative role of capital's flow in dynamics of sector's net assets, which was observed until 2016, after leveling of it in 2016 due to positive revaluation of assets in conditions of stock market's growth.

During 2017, more or less tangible flow of capital occurred in 15 out of 18 open-ended CII (17 at the end of

the year). In some months, impact of one or two funds was significant, as a whole throughout the year 5-6 open-ended CII had inflow or outflow of capital, which determined the direction of flow of the entire sector. Ultimately, 5 funds had relatively substantial net inflow for the year, at that one of them - twice as much as the indicator of the whole sector. Another 5 funds suffered relatively significant net outflow by results of 2017.

Annual net inflow of capital to open-ended CII in 2017 amounted to UAH 2.2 mln. (after the four-year's reduction of the outflow to UAH 1.7 mln. in 2016). At that, the average number of funds, which acted in 2017, remained almost unchanged.

During the year, the net inflow to the sector took place within 7 of the 12 months, and was particularly significant in July and in September-October, after which November witnessed fixing of profits (Chart 13, Table 6).

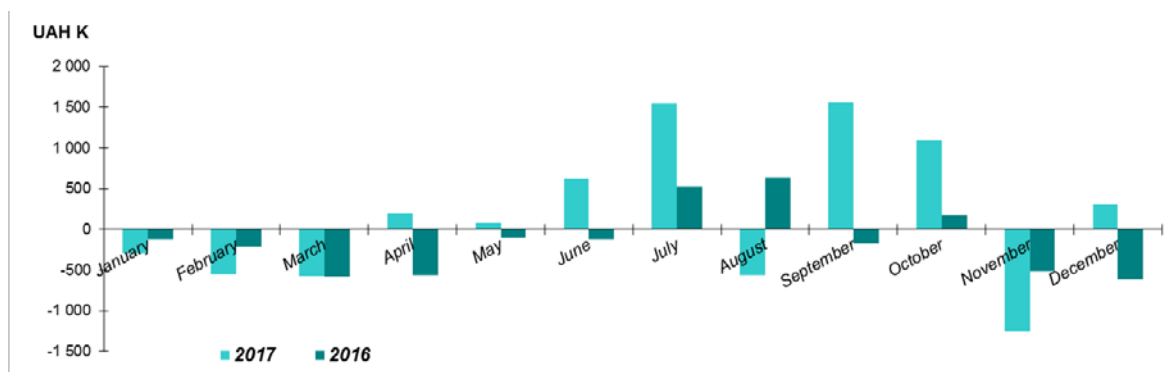


Chart 13. Monthly Net Inflow/Outflow of Capital in Open-Ended CII in 2016-2017 (based on daily data)

Table 6. Monthly Net Inflow/Outflow of Capital in Open-Ended CII in 2011 -2017 (based on monthly data)*

Period	Net inflow/outflow							Number of funds for which data is available*						
	2011	2012	2013	2014	2015	2016	2017	2011	2012	2013	2014	2015	2016	2017
January	-449	-7 987	-363	-10 446	680	-119	-296	31	38	41	29	24	21	17
February	-3 090	-7 952	-1 392	-2 844	-1 271	-217	-551	34	38	41	30	24	20	18
March	15 091	-10 032	1 297	-804	-978	-590	-577	35	38	41	30	24	19	17
April	7 172	-4 748	-3 870	-10 437	-413	-563	198	35	36	42	29	23	19	18
May	8 682	-3 323	-70	398	840	-99	80	35	38	39	29	23	16	18
June	2 505	-2 579	-8 467	-2 130	-1 626	-118	626	33	40	39	31	24	16	18
July	-44	-2 690	-5 268	-8 861	-767	519	1 546	36	40	38	27	23	18	18
August	-11 041	-3 025	-15 623	-165	-176	634	-564	38	40	36	27	20	18	18
September	-6 343	-1 873	-2 360	-144	-520	-177	1 555	39	40	35	28	21	18	18
October	-7 217	-3 333	-8 137	-1 753	-285	167	1 099	40	40	33	27	24	19	17
November	-23 655	-3 963	-2 445	-322	24	-515	-1 251	40	40	31	25	23	18	17
December	-6 138	-2 532	-1 508	329	175	-618	314	38	40	31	25	21	17	17
Year	-24 525	-54 036	-48 207	-37 179	-4 316	-1 697	2 179	36	39	37	28	23	18	18

* Based on daily data.

** For the year - the average for 12 months.

As a result, in the 4th quarter, the net inflow of capital in open-ended CII fell to UAH 0.2 mln. (after +UAH 2.5 mln. in Q3 2017). Thus, movement of capital remained positive in the sector for the third consecutive quarter (Chart 14).

Annual movement of capital in the 4th quarter (for 12 months until December of 2017) doubled in comparison with the 3rd quarter (UAH 1.1 mln.) and, unlike in 2016, has strengthened the net inflow accumulated since the beginning of the year (Chart 15).

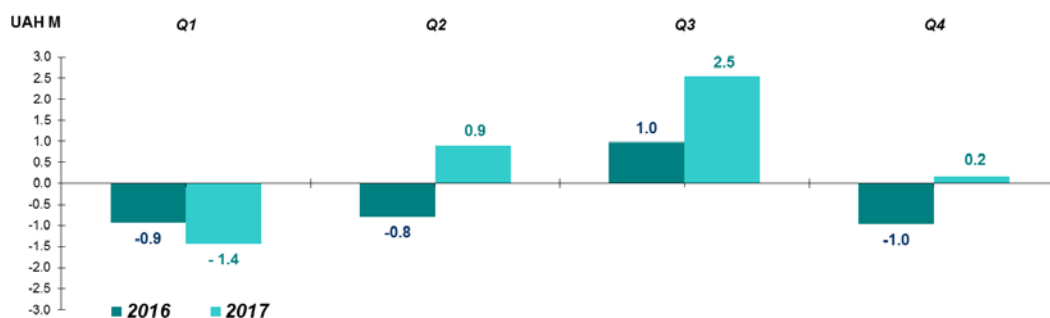


Chart 14. Net Inflow/Outflow of Capital in Open-Ended CII in 2016-2017, quarterly picture based on daily data

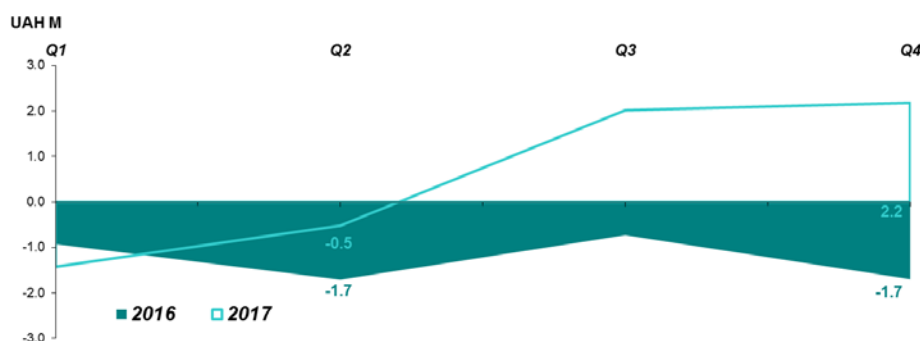


Chart 15. Net Inflow/Outflow of Capital in Open-Ended CII in 2016-2017, accumulated year-to-date

2.4. Investors of CII

In 2017, **legal entities-residents** remained the largest investors of CII, and their aggregate investments grew in absolute terms the most among all categories of investors, although relatively - the least - by 7.4%.

At the same time, the weight's loss of these investors in NAV of all CIIs as a whole continued throughout the whole 2017, and in December they had 66.5% (after 68.4% at the beginning of the year). At the same time, their share *in venture funds* decreased from 69.9% to 67.8% (Chart 16).

In open-ended CII, investments of Ukrainian enterprises in the 4th quarter remained almost unchanged, and during the year they grew, at that more significantly than those of non-residents, thus, the share of the first in net assets of the sector increased from 10.0% in December of 2016 to 10.8% in December of 2017.

In interval CII, the dynamics of domestic corporate investors' inputs in the year's segment was similar to one of October-December, and some decrease of non-resident's assets strengthened the gain of weight by the first ones in 2017 - from 14.1% to 16.5%.

In closed-end funds with public issue, the share of Ukrainian legal entities' assets fell in 2017 from 40.6% to 36.6%, while *in funds with private issue* (venture

excluded) - it increased from 29.7% to 30.7%. Totally, *in closed-end CII (venture excluded)*, it decreased by 1% p. p., to 32.6%, with the absolute growth of aggregate investments of these investors in such funds, which, however, was relatively smaller in comparison with increase of Ukrainian citizens' assets in them.

Citizens of Ukraine in 2017 accelerated growth of investments in CII, the relative rates of which exceeded growth of aggregate value of investments of other categories of investors, in particular, of enterprises-residents. Finally, their weight in NAV of all CII at the end of the year increased to 11.1% (from 10.2% in 2016).

As in the previous year, retail investors-residents as a whole showed demand for all types of CII - their aggregate investments grew in each sector by type of funds. In absolute terms, the aggregate assets of these investors increased the most *in venture CII*, that increased their share in the sector by results of 2017 from 8.5% to 9.4%. *In closed-end funds with public issue*, it grew even more rapidly - from 8.3% to 19.2%; that was connected, in particular, with the largest increase of these investors' investments in the sector, in particular, including emergence of several new funds of this type.

In open-ended funds, increase in the value of individual investors' investments during the year



repeatedly surpassed the dynamics of other categories of investors - both due to additional investments in these funds, and to the growth of their value in conditions of the stock market's growth. Thus, the weight of these investors in the sector of open-ended CII has increased even more significantly than in all funds as a whole - from

73.6% to 75.9% - although it remained below the peak in year 2015 (76.5%).

The largest share of retail depositors-residents in 2017 remained in interval funds, where, however, it declined from 83.7% to 82.1%.

Totally, investors-residents, as at 31.12.2017, held 77.5% of all CIIs' NAV.

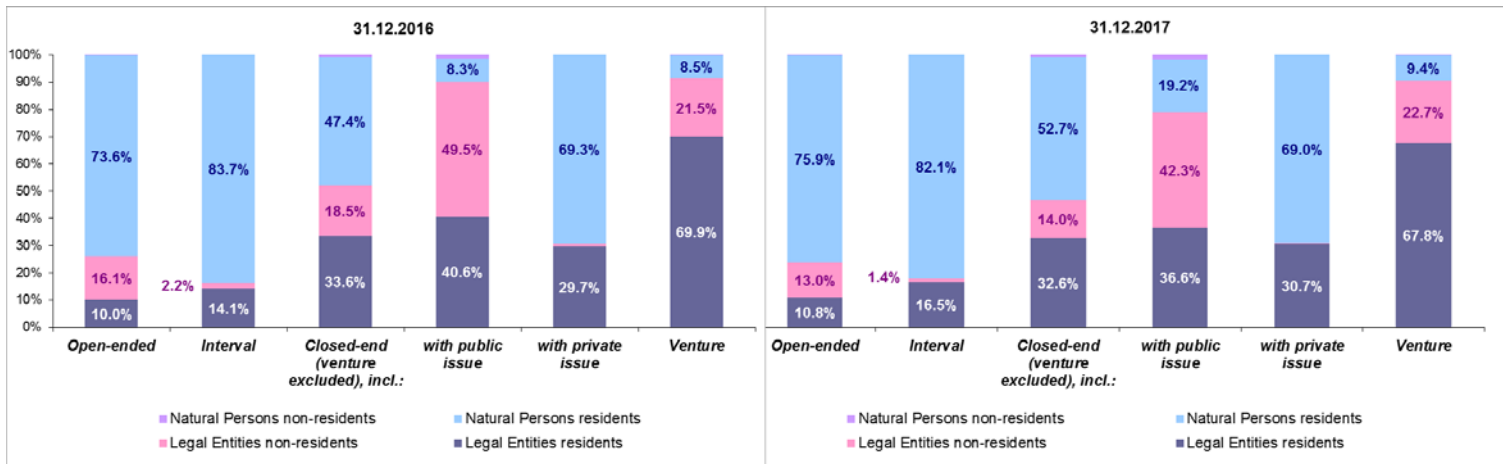


Chart 16. Investments in CII by Categories of Investors at the Beginning and at the End of 2017, Share in NAV*

* Excluding funds' bearer securities in circulation.

Foreign investors, in particular, legal entities, in 2017 were the second ones by rate of increase of their aggregate investments in CII, that increased their weight in NAV of all funds from 21.4% to 22.4% (for enterprises-non-residents).

Venture CII remained the most popular among corporate depositors-non-residents in 2017, where their weight increased again - from 21.5% to 22.7%. *In closed-end funds with private issue (venture excluded),* share of foreign companies' aggregate investments decreased significantly in 2017 relatively to other categories of investors - from 49.5% to 42.3% - however, it was higher than level of year 2015 (35.7%). *In open-ended CII* it fell for the year from 16.1% to 13%, on the background of weak investments' growth and some outflow from the side of these investors.

Foreign citizens, as in 2016, relatively significantly increased total investment only in venture funds and other closed-end CII, where their weight, respectively, remained within 0.1% and approached to 0.6%. In open-ended funds, the share of retail investors-residents declined from almost 0.3% to more than 0.2%, with almost no inflow.

Totally, **investors-non-residents,** as at December 31, 2017, owned 22.5% of all CIIs' NAV.

Number of investors in CII in 2017 continued to decrease in all sectors of *closed-end CII, including venture funds,* however, *in open-ended and interval*

funds it increased for the first time since the pre-crisis period, at that in the first ones positive dynamics was observed in the 3rd-4th quarters. *In closed-end CII with private issue (venture excluded),* increase in the total number of depositors in the 3rd quarter did not surpass the outflow in the 1st-2nd and the 4th quarters. *In closed-end CII with public issue,* on the contrary, influx of investors in 2017 took place only in the 3rd quarter, but by results of the year they also lost.

As at 31.12.2017, there were totally 259,894 investors in all CII (Table 7). During the year they decreased by 1,390 (after -1,914 in 2016), including by 908 - *in venture CII* (including -273 in the 4th quarter), *and by 466 in closed-end CII with public issue* (including -280 for the 4th quarter).

In open-ended CII, the number of investors in October-December increased by one, and for the whole 2017 - by 17 (after decrease by 962 in 2016).

Number of enterprises-residents in all CII in 2017 decreased by 876 (after -390 in 2016), and in Q4 2017 - by 356. Most of all during the year these investors left the *venture funds* (-861, after -338 for the previous year), and in open-ended and interval CII their number increased in 2017 - by 3 and 29, respectively (in 2016 - -7 and -22, respectively).

Number of **retail investors-residents** also became smaller during the year - by 435 in total (after -1,488 in 2016), and as at December 31, 2017, their total



number amounted to 256,132 persons. At the same time, *in open-ended and venture funds*, it grew for the year, respectively, by 16, up to 1,686, and by 24, up to 495.

Among **foreign investors** in 2017 CII were less in demand: their number as a whole decreased by 79, at that *in venture funds* - by 71 (-36 and -35 in 2016, respectively), and as at December 31, 2017, in all funds it amounted to 455. In the 4th quarter there were almost no changes in this category of investors.

Number **of enterprises-non-residents** in CII as a whole for the year decreased by 77 (to 421), *in venture funds* - by 69 (to 391), *in open-ended ones* - by 2 (to 5). One of such investors left each of these sectors in the 4th quarter. At the end of 2017 the largest number of **foreign nationals** was *in interval CII* (19, +1 for the 4th quarter and for the whole year 2017), and also in *closed-end CII with public issue* (7, -1 for the year) and *in venture funds* (7, -2 for the year).

Table 7. Investors of CII, by Categories, as at 31.12.2017, Number and Share in the Total Number

Funds	Legal Entities				Natural Persons				TOTAL
	residents		non-residents		residents		non-residents		
Open-ended	19	1.11%	5	0.29%	1 686	98.54%	1	0.06%	1 711
Interval	50	0.02%	3	0.00%	249 976	99.97%	19	0.01%	250 048
Closed-end (venture excluded), incl.:	360	8.25%	22	0.50%	3 975	91.09%	7	0.16%	4 364
with public issue:	180	4.36%	16	0.39%	3 923	95.08%	7	0.17%	4 126
with private issue:	180	75.63%	6	2.52%	52	21.85%	0	0.00%	238
All (venture excluded)	429	0.17%	30	0.01%	255 637	99.81%	27	0.01%	256 123
Venture	2 878	76.32%	391	10.37%	495	13.13%	7	0.19%	3 771
All Funds	3 307	1.27%	421	0.16%	256 132	98.55%	34	0.01%	259 894

2.5. Asset Structure of CII

Securities in the structure of assets of different sectors of CII in 2017 continued to gain weight only *in interval and closed-end funds with public issue*. In the 4th quarter, it also symbolically grew in *open-ended CII*. Stock market's instruments, in particular equities, as well as government bonds, remained the main component of *open-ended and interval funds'* assets (almost 67% and 81.3%, respectively, Chart 17).

Aggregate value of assets in securities in 2017 increased in all sectors of CII with *public issue (open-ended, interval, closed-end ones)*, and decreased *in venture and other closed-end funds with private issue*. Such multi-directional dynamics of these sectors was characteristic both in the annual dimension, and in the 4th quarter of 2017.

"Other" assets remained the largest component in the assets of *venture and other closed-ended funds*, including ones with public issue⁶: in the first ones their share increased to 80.1%, while in the second as a whole - up to 59.6% (in funds with public issue - up to 71.7%).

In venture funds, "other" assets, after a significant reduction in year 2016 (-UAH 4.5 bln.), grew even more rapidly in year 2017 - by UAH 39 bln., exceeding the indicator of year 2015 (+UAH 34.9 bln.). They increased for the 4th quarter by UAH 15.6 bln.

Monetary assets on current and deposit accounts in banks also remained a significant part of consolidated assets of *open-ended, interval and closed-end non-venture CII* (26.0%, 13.0% and 15.2%, respectively), at that in the first ones their share in 2017 increased, reflecting relatively significant increase of these assets in the sector, which gave way only to growth of the total value of these funds' investments in equities.

Equities in 2017 remained the most significant financial instrument in assets of all CII's sectors by type of funds, except interval ones, and in *open-ended funds* – they strengthened their leadership not only among the types of securities by volume of investments in the aggregate portfolio of the sector, but also among all kinds of assets (44.8%) *In interval CII*, aggregate investments in them increased, but less than in government bonds, so they gave way to the last ones by 1p.p. (39.9%). During the whole year 2017, as in the 4th quarter, the total value of equities increased in consolidated assets of *open-ended and interval funds*, while in all sectors of closed-end CII, *including venture ones* – it declined, in contrast to year 2016.

State bonds (OVDP), in conditions of relatively attractive rates compared with banks' term deposits and other types of assets, as well as in terms of stabilization of hryvnia in year 2017, retained popularity among asset managers of many funds: total investment in these instruments by *interval and closed-end CII with public issue* grew both in the 4th quarter and for the whole year.

⁶ "Other assets" include corporate rights in other forms than securities, as well as receivables, including loans to companies, where CII own a stake in the capital (for venture funds).



At the same time, *open-ended CII and closed-end CII with private issue (including venture ones)* - reduced their investments in OVDP in 2017, at that *open-ended and closed-end CII with private issue (venture excluded)* - in the 4th quarter too. Finally, the weight of government

bonds in these two sectors of CII declined significantly over the year - to 21.8% and 0.2%, respectively. *In interval and closed-end funds with public issue* it increased to 40.9% and 11.3%, respectively.

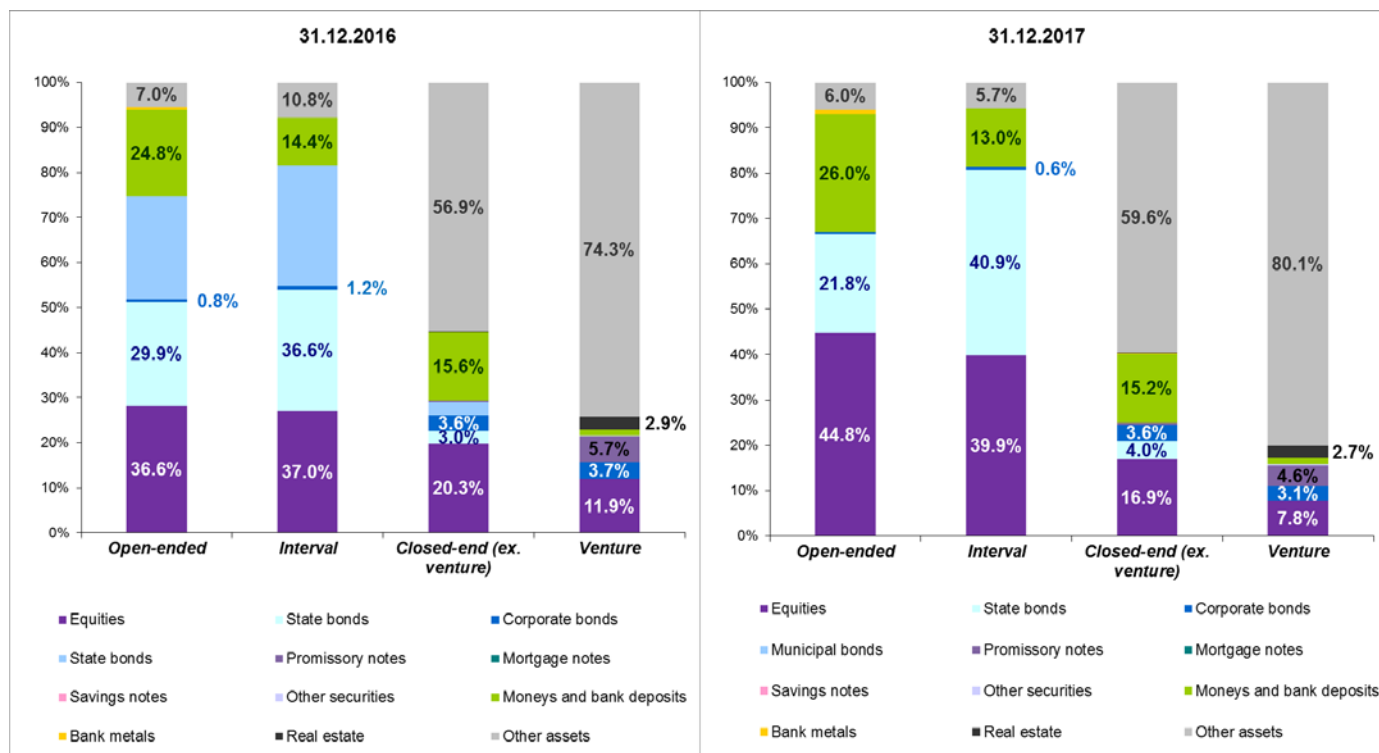


Chart 17. CII Asset Structure by Fund Types at the Beginning and at the End of 2017

In consolidated portfolio of all CIIs' securities in year 2017, ***equities*** as a whole lost 23.7% (practically at the expense of venture funds), which was the largest drop in comparison with other instruments. Against the backdrop of an increase in investments in ***OVDP*** by 13.6%, this reduced the share of the first ones by more than 6 p.p., to 50.4% (in the 3rd quarter the share was 52.5%). The total value of equities in assets of all CII at the end of the year decreased to UAH 21,493.4 mln. (Table 8). In the 4th quarter, the dynamics resembled the last year's one: total investment of CII in equities decreased by UAH 2,097.2 mln. (-8.9%).

The aggregate CIIs' assets in ***promissory notes and corporate bonds*** declined both in the fourth

quarter and throughout the whole year 2017, although the weights of both instruments in both intervals of time increased against the background of a sharp decrease of assets in equities - to 27.4% and 19.0%, respectively (at the 3rd quarter - 26.8% and 18.4%, respectively).

Derivatives continued to grow rapidly in CIIs' assets (at the expense of venture funds) for the second consecutive year: their total value increased by 254.2% in the year 2017 and by 42.8% in the 4th quarter, and their share - more than fourfold - to 2.0% (in the 3rd quarter - 1.3%). Thus, if at the beginning of 2017 they were two times less than ***OVDP***, then at the end - almost twice more.

Table 8. CII Aggregate Portfolio of Securities, by Type of Instruments in 2017

Security type	Aggregate value of securities & derivatives in CII portfolio, UAH		2017 change		Share in the aggregate portfolio of CII securities	
	31.12.2016	31.12.2017	UAH	%	31.12.2016	31.12.2017
Equities	28 177 562 518	21 493 444 309	-6 684 118 209	-23.72%	56.33%	50.43%
Promissory notes	12 654 462 901	11 662 576 327	-991 886 574	-7.84%	25.30%	27.36%
Corporate bonds	8 500 311 317	8 109 262 372	-391 048 944	-4.60%	16.99%	19.03%
Derivatives	242 003 681	857 116 262	615 112 581	254.17%	0.48%	2.01%
State bonds (OVDP)	432 670 110	491 396 943	58 726 833	13.57%	0.87%	1.15%
Mortgage notes	12 650 612	6 843 737	-5 806 875	-45.90%	0.03%	0.02%
Total	50 019 661 139	42 620 639 951	-7 399 021 188	-14.79%	100.00%	100.00%



In CII's stock portfolio of CII (venture excluded), in 2017 *equities* continued to lose their weight - by 6.3 p.p. for the year and 3 p.p. for the 4th quarter - to 67.3% (UAH 1,499.7 mln.) at the end of the year (Table 9). It was caused by decrease in these funds' aggregate value of equities by 9.5% for the year and by

2.7% in the 4th quarter, as well as by growth of investments in other instruments.

Thus, increase of investments in *government and corporate bonds* in consolidated portfolio of these CII contributed to the increase of the first ones' weight by 5 p.p. for the year, and of the second ones - by almost 1.2 - to 17.4% and 13.9%, respectively.

Table 9. Aggregate Securities Portfolio of CII (Venture Excluded), by Type of Instruments in 2017

Security type	Aggregate value of securities & derivatives in CII portfolio, UAH		2017 change		Share in the aggregate portfolio of CII securities	
	31.12.2016	31.12.2017	UAH	%	31.12.2016	31.12.2017
Equities	1 657 148 506	1 499 708 369	-157 440 136	-9.50%	73.62%	67.28%
State bonds (OVDP)	277 722 480	387 855 818	110 133 338	39.66%	12.34%	17.40%
Corporate bonds	286 584 018	309 624 278	23 040 260	8.04%	12.73%	13.89%
Promissory notes	29 561 397	31 715 388	2 153 991	7.29%	1.31%	1.42%
Total	2 251 016 401	2 228 903 853	-22 112 548	-0.98%	100.00%	100.00%

Diversified CII, almost all of which have public issue, in the year 2017 reduced the consolidated portfolio of securities by another 40% (after 2-fold reduction - in year 2016), to UAH 69.1 mln. (Table 10). The main factor of this was the reduction of total investments *in equities* (-46.5% for the year, -5.5% for the 4th quarter), which, despite losing of almost 9 p.p. of the weight in portfolio of these funds' stock instruments, kept primacy among them - 71.5% of the portfolio, and even increased in the 4th quarter (from 63.3% in Q3 2017). This was due to a more restrained reduction of these investments

compared to *corporate bonds* (-92.8% for the 4th quarter, -43.3% for the year 2017, to 1%). This happened on the background of the closure of two CII of this type during the year.

Government bonds, the aggregate portfolio of which here also decreased in the 4-th quarter and the whole year 2017 (-8.4% and -12.4%, respectively), had a relatively positive dynamics compared to the rest of instruments - their share increased by 8.7 p.p. over the year, to 27.5% (in the 3rd quarter it was 25.2%).

Table 10. Aggregate Securities Portfolio of Diversified CII, by Type of Instruments in 2017

Security type	Aggregate value of securities & derivatives in CII portfolio, UAH		2017 change		Share in the aggregate portfolio of CII securities	
	31.12.2016	31.12.2017	UAH	%	31.12.2016	31.12.2017
Equities	92 245 966	49 367 613	-42 878 353	-46.48%	80.10%	71.48%
OVDP	21 707 064	19 015 578	-2 691 486	-12.40%	18.85%	27.53%
Corporate bonds	1 206 154	683 666	-522 489	-43.32%	1.05%	0.99%
Total	115 159 184	69 066 857	-46 092 327	-40.02%	100.00%	100.00%

2.6. CII Rates of Return

Long and practically stable upward trend of the Ukrainian stock market (according to the UX index), which lasted already from the 2nd quarter of 2016, in 2017 pushed CII's rates of return higher even more actively, especially *of open-ended and equity funds* (diversified and specialized CII with public issue), which in 2017 became the *leaders by rates of return among different areas of investment*.

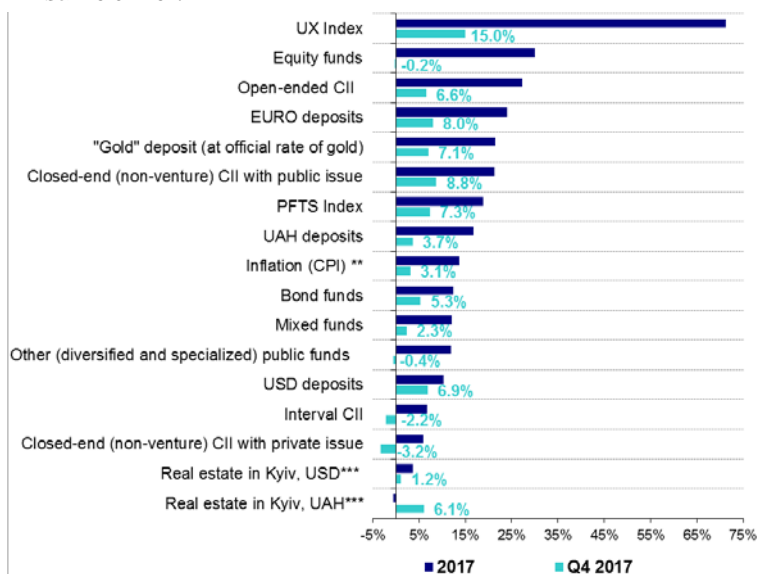
There were one equity and one mixed funds among open-ended CII, which had annual rates of return at the level or above of the UX index's growth in 2017, at that in 2016 these funds had a yield which was above the

average one for open-ended CII, although in 2015, when the UX index lost a third of its value, these funds also had negative returns. The average annual rates for equity funds, which were leading both among diversified public CII, and among all CII's sectors, according to different approaches to classification of funds, was more than twice lower compared to growth of key indicator of the Ukrainian stock market in 2017 (Chart 18).

Leaders of previous years, *bank term deposits in gold* (+22.7% in 2016), in 2017 brought an average of 21.5%, giving way also to deposits in euros (+24.0%, after +14.6%). Rates of return of *year-term deposits* in



hryvnia dropped to 16.9% (from 22.1% in 2016), against the backdrop of massive decline of rates, relatively stable exchange rate of *hryvnia* and increase of inflation at the same time⁷.



Ranking by the annual rate (2017), figures are given for Q4 2017

Chart 18. Rates of Return – CII, Deposits, Equity Indexes and Inflation Rates in Q4 2017 and 2017⁸

The average yield of **open-ended CII** increased from +5.6% to +6.6% in the 4th quarter of 2017, at that, various funds showed from -0.4% to +15.3%.

The range of annual yields for 2017⁹ The range of annual yields for 2017 in the sector was almost entirely in the positive zone – from

-3.2% to +87.5% (-4.2% to +39.7% in 2016). **The average annual income** in the sector for all funds, which had been acting during the whole year, rose to +29.7% (from +14.7% in 2016), while the number of existing funds which had been acting for the whole year decreased from 18 to 17. According to quarterly data, annual rates of return rose from +14.0% to +27.3%.

Growth of investments in 2017 was provided by 16 of the 17 open-ended CII (94%, after 89% in 2016),

⁷ For an adequate comparison of rates of return it is necessary to take into consideration 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 early release of moneys for the period since the beginning of contract's entry into action based on the rate of return of current accounts. In the meantime, calculated rates of return do not take into account possible commissions and other costs incurred at entry to/exit from funds, as well as taxation of investment profit.

⁸ Inflation is given according to data of the State Statistics Service of Ukraine (consumer price index for goods and services in 2017 (December to December of the previous year)). Rates of return for real estate in the US dollars is calculated as the average of data on the value of real estate in Kyiv from portals: <http://www.domik.net>, <http://100realty.ua>, <http://realt.ua>; in *Hryvnia* – based on data from portal: <http://100realty.ua>.

⁹ CII rates of return is calculated based on the reported annual data; as at 31.12.2017 data are available for 17 open-ended, 18 interval, 68 closed-end CII (including 40 with public issue and 28 with private issue) See [CII Ranking](#).

with 2 funds having a yield higher than the UX index, 9 funds yielded higher returns, and 11 covered inflation and brought additional income (before taxation).

In the sector of **interval CII**, the average yield in the fourth quarter dropped from +4.3% to -2.2% (the average was +0.7%, without taking into account the extremes of upper the and lower values), while the range of individual results was from -66.9% to +16.7 % **Annual income**, according to quarterly data, rose from -6.2% to +6.7%, with a decrease in the number of acting funds from 19 to 18.

Rates of return of closed-end CII with public issue on average declined insignificantly in the 4th quarter - from +9.3% to +8.8%. For the whole year 2017, these funds brought almost by 4 times more than in 2016 - +21.2% (after +5.4%), with decreasing of their number from 46 to 40 during the year.

Closed-end CII with private issue (venture excluded) showed an average of -3.2% for the 4th quarter (after 6.0% in Q3 2017). **For the year**, their average returns more than doubled - to +5.9% (from +2.6% in 2016), and number of such funds, which were considered in calculations, decreased from 32 to 28.

Among **diversified CII with public issue by asset classes equity funds** became the leaders by rates of return **in 2017** the second time in a row (+30.1%, after +15.0% in 2016).

However, these funds showed insignificantly negative returns in the fourth quarter (-0.2%), although this was due to inclusion of one fund by quarterly results to this class; this fund previously belonged mainly to mixed funds and had sharp drop in value of its certificates in October-December. Without taking it into consideration, equity funds had quarterly return of 10.9%, and annual rate in this case was 44.5%.

Bond funds, which ended in 2016 with almost the same result as equity funds, **in 2017** showed a more moderate average increase in the value of investments, which amounted to +12.3%. In the fourth quarter, however, they were leaders in this segment of CII by classes of funds with an average of +5.3% (after +3.6% in Q3 2017).

Mixed funds, composition of which in the fourth quarter changed the most among classes of funds, showed for this for theiod +2.3% (after +4.6% in Q3 2017), **and by the annual yield** broke the trend of previous years and brought growth: +12.1% (after -2.8% in 2016).



3. NPF Asset Management Market Results

Assets of non-state pension funds under management of AMC in 2017 further accelerated growth, at the same time, the number of AMCs managing NPFs and of funds themselves continued to decrease.

Number of pension funds under management in 2017 decreased by 6.5% for the year

(after -12.7% in 2016) - from 62 to **58 NPFs**. As at 31.12.2017, there were 46 open, 6 corporate and 6 professional NPFs under AMC management, ie by 2 open and 2 corporate funds less than at the beginning of the year (Table 11).

Table 11. Number of NPF under AMC Management, by Fund Types in Q4 2017 and 2017

NPF Type	31.12.2016	30.09.2017	31.12.2017	Q4 2017 change	2017 change
Open	48	46	46	0.0%	-4.2%
Corporate	8	6	6	0.0%	-25.0%
Professional	6	6	6	0.0%	0.0%
Total	62	58	58	0.0%	-6.5%

**Excluding corporate pension fund of NBU*

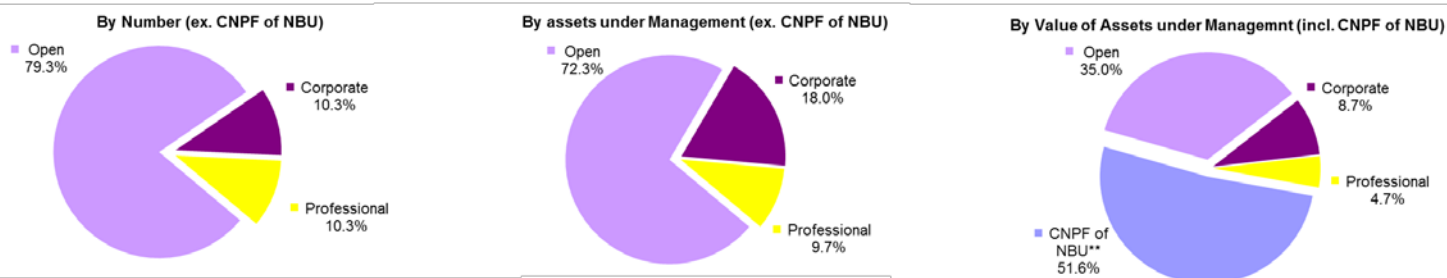


Chart 19. Breakdown of Number of NPF under AMC Management and of Value of Their Assets, by Fund Types, as at 31.12.2017

Number of AMCs managing NPF assets in 2017 decreased by another 5 (-12.8%) - to 34. Value of NPF assets under AMC management accelerated growth for the year to 15.2% (from +11.7% in 2016)

and amounted to UAH 1,194 mln. In the 4th quarter of 2017, the total assets of all NPFs increased by 6%, and without the NBU fund - by 2% (Table 12, Chart 20).

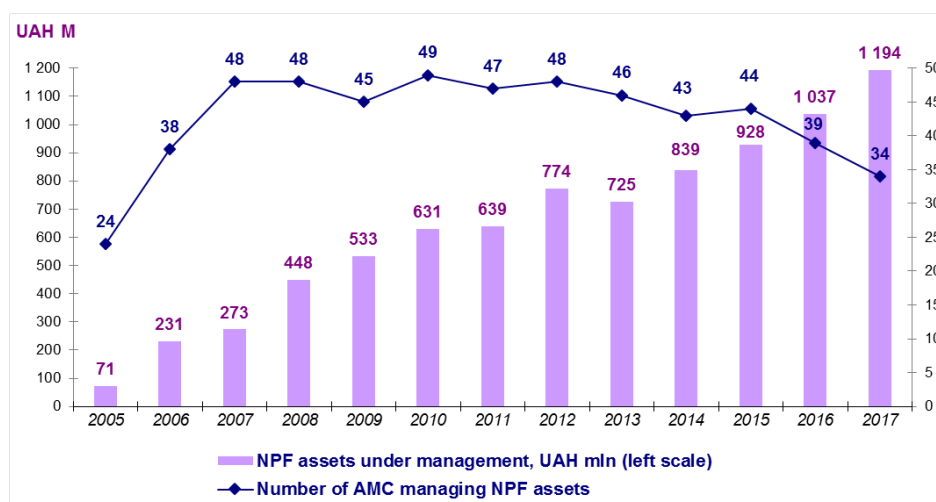


Chart 20. Dynamics of NPF Asset Management Market in 2005-2017

Aggregate assets of all NPFs, including the NBU CNPF, in 2017 increased by 15.3% to UAH 2,466 mln. This was supported by increase in the number of NPF participants by 0.8% and of sum of investment's income - by 34.7%, despite decrease in the

number of concluded pension contracts (-6.2%) and predominant increase of pension payments over contributions (10.5% vs. 0.1%).¹⁰

¹⁰ According to data of the National Financial Service.



Table 12. Value of NPF Assets Under AMC Management, by Fund Types in Q4 2017 and 2017

NPF Type	31.12.2016		30.09.2017		31.12.2017		Change of NPF assets managed for Q4 2017,%	2017 change,%
	Assets, UAH M	Number of NPF reported	Assets, UAH M	Number of NPF reported	Assets, UAH M	Number of NPF reported		
Open	744.3	46	851.9	46	863.6	43	1.4%	16.0%
Corporate	176.2	7	200.1	5	214.8	5	7.4%	22.0%
Professional	116.2	6	118.8	6	115.6	6	-2.8%	-0.5%
Total*	1 036.6	59	1 170.8	57	1 194.0	54	2.0%	15.2%
CNPF of NBU**	1 102.1	1	1 156.0	1	1 271.6	1	10.0%	15.4%
Total	2 138.7	60	2 326.8	58	2 465.6	55	6.0%	15.3%

* Excluding corporate pension fund (CNPF) of NBU. ** According to the National Financial Services Commission of Ukraine.

Open NPFs remained the largest sector, which in 2017 once again increased the most in absolute terms - by UAH 119 mln. (after +UAH 74.4 mln. in 2016) - and gave way to corporate funds in relative terms – +16.0% (after +11.1% in 2016). Sector's assets at the end of the year amounted to UAH 864 mln.

Assets of corporate NPFs under AMC management accelerated growth in 2017 to +22.0% (after +20.4% in 2016) and amounted to UAH 215 mln.

Professional NPFs have remained almost unchanged by annual indicator (-0.5%, after +3.8% in 2016), driven by downward dynamics in Q4 2017 (-2.8%). As at December 31, 2017, the sector had UAH 116 mln.

Corporate NPFs remained the largest in terms of average volume of assets under

management in 2017, they were more than twice as high as open and professional funds by this indicator - UAH 43 mln. (after UAH 25 mln. in 2016), against UAH 20 mln. of open and UAH 19 mln. of professional funds, respectively.

In the structure of NPF assets under AMC management, in 2017, the share of securities decreased, but by the end of the year it increased to 51.2% (from 50.3% in 2016 and 49.9% in Q3 2017, Chart 21).

For the entire industry of NPF, taking into account the corporate fund of the NBU, the indicator by the end of 2017 was slightly lower, and the annual dynamics was reversed: the weight of the stock instruments in total assets of all funds for the year dropped from 51.1% to 49.5% (Chart 22).

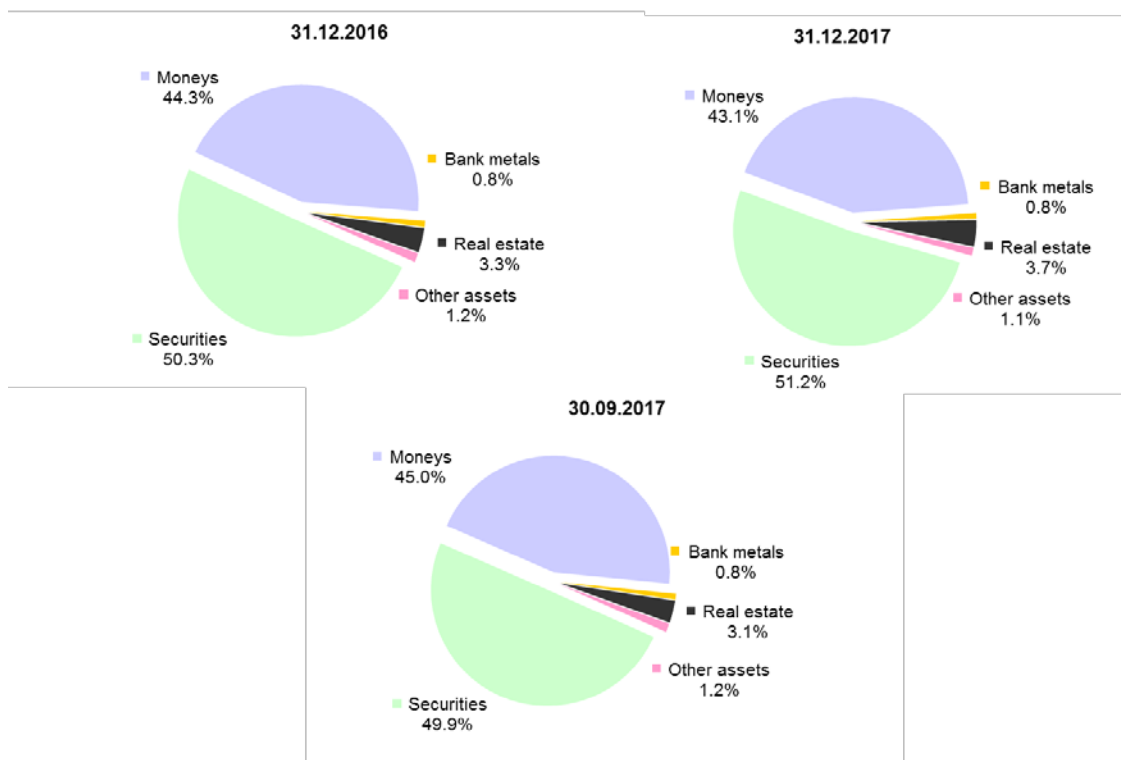


Chart 21. Dynamics of NPF Aggregate Portfolio Structure (ex. CNPF of NBU) in Q4 2017 and 2017

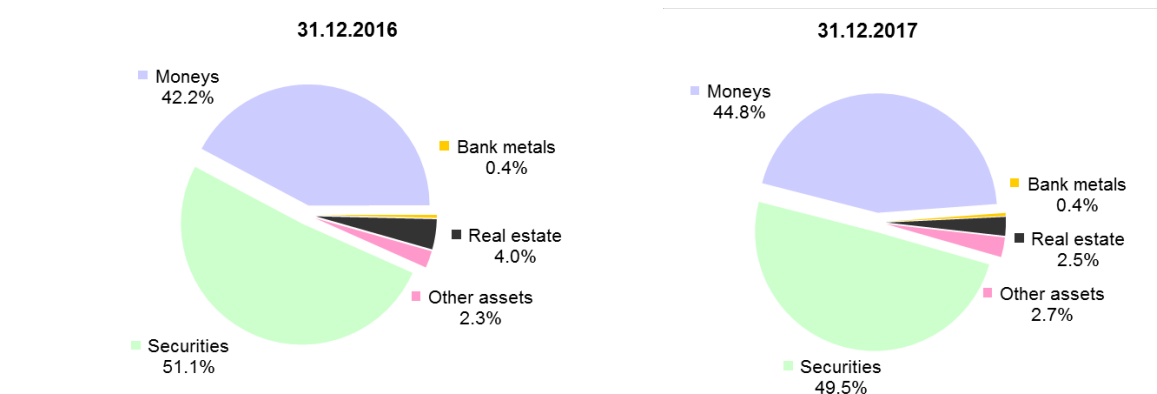


Chart 22. Dynamics of NPF Aggregate Portfolio Structure (with the NBU CNPF) in Q4 2017 and 2017

Assets of NPF (without the NBU CNPF) **in securities** in 2017 increased to UAH 611.6 mln. (Table 13), ie by UAH 89.9 mln., or by **17.2%** (after +1.5% in 2016), including by UAH 27.7 mln. – in the 4th quarter. Unlike in the previous year, the lion's share (86%) of growth was in open NPFs, aggregate stock assets of which

grew by UAH 77.3 mln. for the year (+21.9%), although *corporate ones* significantly increased these assets - by +17.6% (UAH 15.8 mln.). *In professional funds*, the volume of securities on an annual basis decreased by 4.1% (-UAH 3.2 mln.).

Table 13. Structure of NPF Assets Under AMC Management, by Fund Types, as at 31.12.2017, UAH M

NPF Type	Securities	Moneys	Bank metals	Real estate	Other assets
Open	430.8	374.3	10.1	38.7	9.8
Corporate	105.5	109.3	0.0	0.0	0.0
Professional	75.3	31.6	0.0	5.1	3.6
Total	611.6	515.2	10.1	43.8	13.4

Dynamical growth of NPF assets in stock instruments in 2017 was accompanied by a weaker increase **of funds' monetary assets in banks** - by UAH 56.4 mln., or **+12.3%** (after +24.5% in 2016), at that in the fourth quarter they decreased by 2.3% (-UAH 12.1 mln.). Finally, the weight of monetary funds in NPF assets under management in 2017 decreased from 44.3% to **43.1%**.

Open NPFs provided 54% of total increase of moneys of all NPFs under AMC management in 2017 (UAH 30.3 mln.), however, increase of assets in securities was relatively higher, so the weight of securities in the sector increased by 47.5% to 49.9% for the year, and the share of moneys dropped here from 46.2% to 43.3% (Chart 23), although it was higher than in year 2015.

Bank metals remained only in assets of *open NPFs*, and **real estate and other assets** - also in *professional ones*. As a whole, the share of the first and of the last ones in the total assets of NPF under AMC

management almost did not change in the fourth quarter and for the whole year of 2017, while of real estate - increased to 3.7%.

In corporate NPFs in 2017 funds, in terms of bank funds' increasing by 27.4%, the weight of moneys in assets continued to increase - from 48.7% to 50.9%, while the share of the stock portfolio, despite its increase, decreased from 50.9% to 49.1%. It consisted entirely of government bonds.

In professional NPFs, further increase in the share of assets in banks, the volume of which in this sector increased by 8.8% in 2017, was reinforced by decrease of assets in securities. Therefore, the weight of the first ones increased from 25.0% to 27.3%, the latter - dropped from 67.6% to 65.2%, remaining the largest one among NPFs' sectors by types of funds. Assets of these NPFs included a significant share of corporate bonds (21.9%), although it, as in other sectors, decreased significantly in 2017 (from 26.8% in 2016).

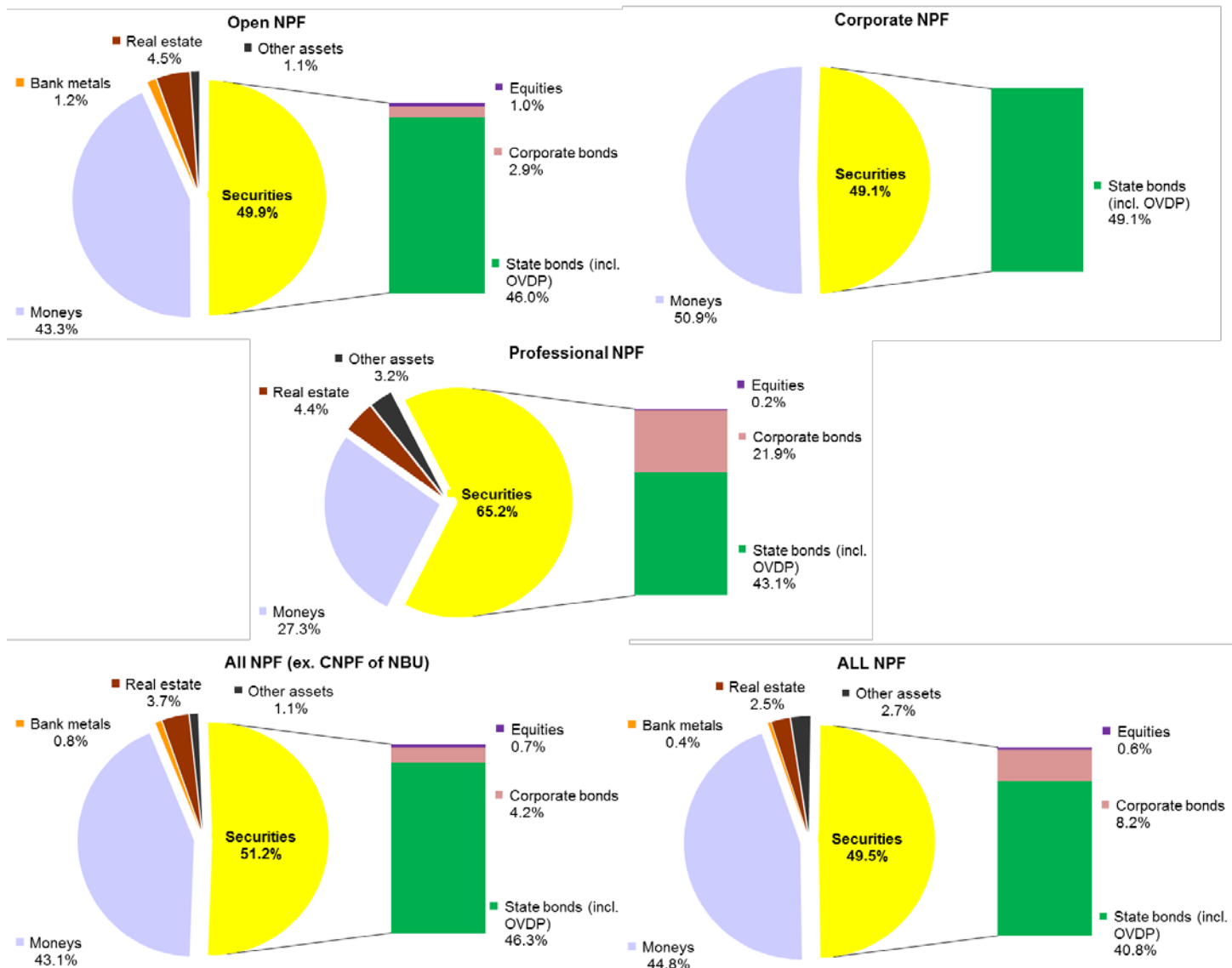


Chart. 23. Structure of NPF Assets, by Fund Types as at 31.12.2017

4. IC Asset Management Market Results

Assets of insurance companies (IC) under AMC management in 2017 sharply accelerated their growth, although in terms of number of participants and in comparison with CII as a whole, this market remained small.

Number of ICs, which transferred their assets under management decreased during the year from 7 to 6, and **AMCs that rendered such services** - from 3 to 2.

Assets of IC under management increased in 2017 by 127.5% (after +65.7% in 2016) and as at December 31, 2017 reached **UAH 123.6 mln.**, and the largest quarterly increase, despite the higher base of comparison, was exactly in the 4th quarter (+41.3%). At that, the number of ICs and AMCs with their assets under management was unchanged from the 2-nd quarter (Table 13), so assets increased within limits of existing contracts.



Table 14. IC Assets under AMC management in 2017

Period	Number of AMC Managing IC Assets	Number of IC managed	IC Assets under management, UAH, mln.	Change of IC Assets Managed		
				for the quarter	YTD	for the year
2016	3	7	54.3	6.0%	65.7%	65.7%
Q1 2017	3	7	69.1	27.3%	27.3%	106.4%
Q2 2017	2	6	83.3	20.5%	53.4%	71.9%
Q3 2017	2	6	87.4	5.0%	61.0%	70.6%
Q4 2017 / FY 2017	2	6	123.6	41.3%	127.5%	127.5%

Since the year 2009, when only one IC handed part of its assets under AMC management, the market has grown more than by 40 times, with a steadily rising

annual trend from 2014, but in 2017 it exceeded the historically peak volume of year 2012 (Chart 24).

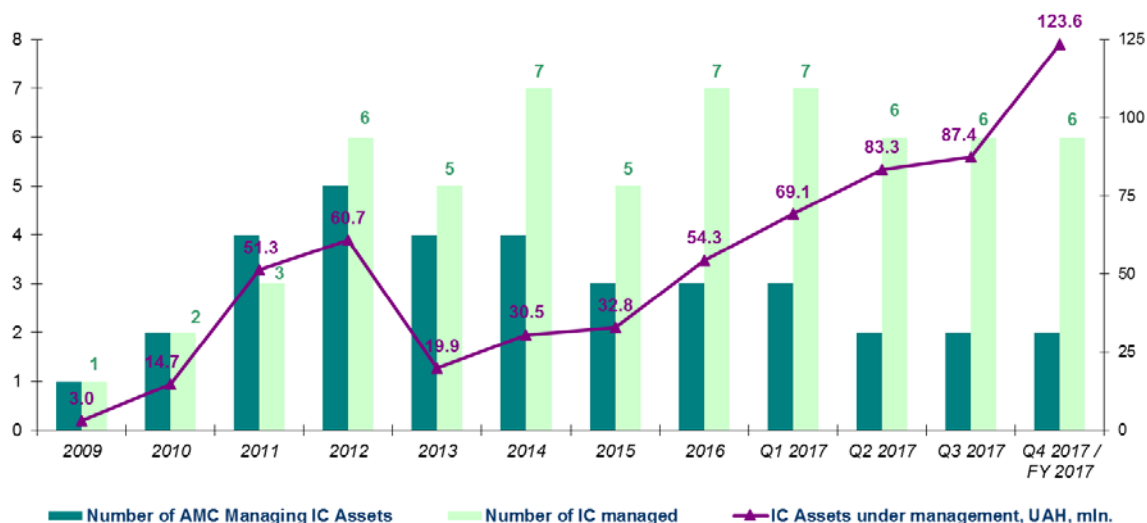


Chart 24. Dynamics of IC Asset Management in 2009-2017

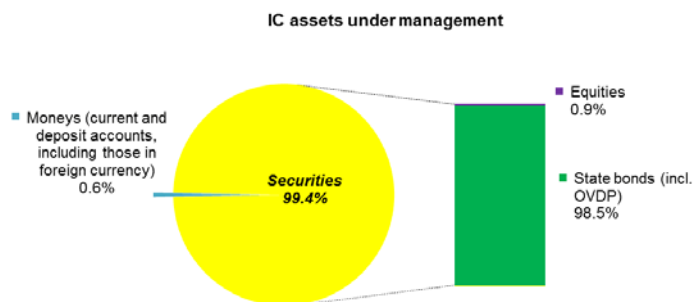


Chart 25. Structure of IC Assets under Management as at 31.12.2017

Structure of ICs' assets under management in 2017 was composed almost entirely by *government bonds*, and the share of *equities* was less than 1% (Chart 25)¹¹.

¹¹ За даними, наданими КУА з активами СК в управлінні.



5. Problematic Aspects of the Asset Management in 2017

In 2017, stabilization of macroeconomic situation in Ukraine as a whole continued, and along with it there were some currency liberalization, foreign- economic successes in the form of increased exports to the EU, and also the first, since 2013, access to international capital markets and active growth of stock indices, which contributed to improved funds' results, inflow of capital to open-ended CII and the overall accelerated growth of the Ukrainian industry of institutional investors' assets management. Водночас At the same time, the market continued to overcome the ***encountered in previous years difficulties, and new problems of the year 2017, which influenced the industry***, in particular:

- Further reduction of the list of existing and available for investing stock market instruments, in particular for pension funds, as well as of diversified and specialized CIIs with public issue - due to unadequately high requirements for issuers of securities for inclusion them on stock exchanges' lists;
- related to it problem of tough legislative constraints on composition and structure of NPFs' assets (investing exclusively in those securities which are listed on stock exchanges), which were adjusted only at the end of the year, with the introduction them into effect in the next year;OMY;
- absence of new issuers of equities and bonds, development of market of capital only at the expense of derivatives which virtually still have no legislative regulation;
- continuing closing of banks, albeit at much slower pace, and actual losing of assets of funds, which are located in liquidated bank institutions in conditions of the permanent absence of system for protection of such investments;
- despite of some liberalization of currency regulation by NBU and regulation of foreign issuers' admission to trade in Ukraine, - the actual lack of infrastructural mechanisms (or their excessive complexity and high cost) for practical implementation by funds norms of the laws "On CII" and "On NPF" relating to the possibility of acquiring quality foreign securities for diversification and hedging of funds' risks;
- Along with growth of real incomes of Ukrainian citizens - increased inflation, which limits opportunities for formation of savings and their

investing, in a context of very low awareness on the stock market and joint investment.

Among the protracted problems for the industry, which weakened negative influence in 2017, there were also continuation of military actions in eastern Ukraine and annexation of Crimea for the fourth consecutive year, which "froze" those funds' assets in these territories, which had not yet been lost or written off. However, the aggregate value of assets in the conflict zone (ATO area) in Donbas, in CII and NPF portfolios, remained insignificant (less than 0.01% of aggregate assets), and therefore it did not have a significant impact on the industry.

Number of issuers and issues of securities with "registration" in the ATO zone in the portfolios of all funds for the year has not changed (31), and number of funds with such assets has decreased: as at 31.12.2017 they were in portfolios of 92 CII and of 14 NPFs (in 2016 – of 105 CII and of 16 NPFs).

Assets in current and deposit accounts, and in financial instruments of those banks, which were recognized as insolvent by the National Bank of Ukraine, in 2017 were also problem for a number of CIIs and NPFs, albeit considerably smaller, but still actual one.

As at 31.12.2017, there were in total 96 of such banks (a year ago -87), and funds had assets in 44 banks from this list. ***CII and NPF together owned assets in such banks with total amount of UAH 13.4 mln.***, including UAH 1.4 mln. - in deposits, UAH 11.3 mln. - in current accounts, UAH 0.8 mln. - in banks' equities.

Thus, in the course of the year, with an increase in the number of insolvent banks as a whole by 9, their number in funds became less by 2, and the total amount of CIIs' and NPFs' troubled bank assets decreased by 86% (including due to their mandatory revaluation and write-offs under the legislation).

Over 99% of these assets, which were accounted in the portfolios of institutional investors at the end of 2017, belonged to CII (in 2016 - 98%), almost all of them - to venture funds, including 85% of them - in current accounts of these funds in banks, 10% - in deposits (a year ago, 67% were in deposits). NPF reflected the balance almost exclusively in deposits of 4 banks for a total amount of UAH 0.1 mln.



As a whole, assets of investment and pension funds in banks in 2017 increased again by 6% - to over than UAH 5.3 bln. Therefore, along with stabilization of banking system, AMC continued to place CIIs' and NPFs' assets in relatively reliable

institutions, in conditions of limited choice of qualitative investment opportunities for formation of funds' portfolios in accordance with legislative and regulatory constraints and selected investment strategies.

6. Summary and Directions of Development for the Next Year

In 2017, Ukraine's financial and economic system demonstrated some signs of stabilization, which has also contributed to the asset management industry. The number of participants - both of AMCs and acting funds under management - has slightly increased for the first time in 4 years, although the dynamics among investors was divergent in different sectors of CII. Assets under management, after reduction in the previous year, returned to growth in 2017.

Number of asset management companies for the year increased by one, to 296, with the simultaneous closure of a number of companies during the year and emergence of new ones.

Number of collective investment institutions - those that have reached the normatives for minimum volume of assets - has increased for the first time since 2013 and reached 1,160 funds, against the background of venture CIFs' popularity. Total number of registered CII, growth of which accelerated in 2017, continued to increase. At the same time, closure of some funds also continued. Number of liquidated venture UIFs was the largest in 2017, as in the previous year; one open-ended and one interval UIF, and two closed-end non-diversified CIFs were also closed. In 2017 the first closed-end qualified fund (UIF), which was created in accordance with the Law "On CII", which came into force in 2014, reached the standards, and as a whole there were 10 funds, which reached the standards by the end of 2017, in new categories of specialized and qualified CII.

Aggregate assets under management and net assets of CII in 2017 rapidly increased and have updated the historic maximum. As at December 31, 2017, total assets of CII industry amounted to over than UAH 263 bln., net assets - almost UAH 213 bln.

As before, venture funds were the engines of industry, albeit growth affected all sectors (except of closed-end CII with public issue by annual result, although they also increased in the fourth quarter). *Open-ended and interval funds* in October-December added more than 4% of the total NAV, and for the year - 20-30%. Thus, the sector of open-ended CII continued its upward trend for the second consecutive year - it was

contributed by net inflow of capital to it, the first for 10 years, as well as lively growth of stock indices in this year.

Number of investors in CII in 2017 decreased again, but in open-ended and interval funds their number increased for the first time since the pre-crisis period: in the first ones - mainly at the expense of retail depositors-residents, while in the second ones - at the expense of enterprises-residents.

Aggregate investments of *domestic enterprises* - the largest investors in CII - in 2017 grew the most in absolute terms among all categories of investors, although in relative terms - their growth was smallest. Finally, their weight in NAV of all funds at the end of the year decreased, but remained at the level of 2/3 of the industry. *Citizens of Ukraine* accelerated the growth of investments in CII in 2017, and their share in the total NAV exceeded 11%. *Foreign investors*, in particular *legal entities*, in 2017 were the second ones by rates of growth of their aggregate investments in CII, this increased the share of non-residents in NAV of all funds to almost 23%.

CII rates of return in 2017 continued to grow and was amplified by dynamics of the stock market for those funds, which invested a large share of assets in securities.

Open-ended CII, which were leaders by average annual revenue among sectors of CII by type of funds, were ahead of not only time-based annual banks' deposits in hryvnia, but also of deposits in euro, which were the most profitable among banks' deposits in 2017. This year, again, all, except one, open-ended funds provided an increase in value of investments, and two out of 17 even surpassed returns of the UX index, demonstrating the high result for the second year in a row.

Among diversified CII with public issue - as well as among different sectors of CII as a whole - *equity funds* had the highest results by rates of return for the second year in a row; they brought more than 30%, and *bond funds* were leading in the fourth quarter.

Assets of non-state pension funds under management in 2017 accelerated growth, and number of funds and of managing them AMCs further decreased.

Open funds remained the largest segment of NPFs in terms of number and total amount of assets



under management (excluding the corporate fund of the National Bank), this year they increased the weight both in terms of quantity and value of assets under management. At that, almost 52% of the whole NPF market was held by the NBU CNPF, limiting the share of open NPF to 35%.

In 2017, the share of NPFs' assets (without CNPF of NBU) in securities was more than 1/2, and 90% of it were invested in government bonds. At the same time, stock instruments still comprised for almost 2/3 of professional NPFs' portfolio, at that 22% - were corporate bonds, although the OVDPs' share here was also the largest. Taking into account the corporate fund of the NBU, the NPF market held a somewhat higher share of assets in banks' accounts (almost 45%), and in securities - almost half (80% of them in OVDP).

Assets of insurance companies under management in 2017 also increased at an accelerated pace - more than twice, exceeding the size of sectors of open-ended and interval CII, although the number of AMC providing services to the IC, as well as the number of such companies, for the year did not change.

According to data of AMC, which have assets of IC under management, almost all of them were invested in government bonds.

As the whole, results of 2017 were positive and better ones for a larger number of CII and their investors, than in 2016, and for the funds with public issue, in particular for open-ended ones, this year has become especially important, because the annual net inflow witnessed overcoming of at least some of the effects of financial crisis, which lasted for almost a decade, despite rise of stock indexes within some years also before 2017. In terms of return on investments, this year, when dynamics of stock indices was steadily rising, naturally, was the most successful for funds, which were focused on investment in equities.

Some positive regulatory initiatives on implementing existing and creating new opportunities for successful and effective asset management of funds,

which have emerged during the year, have yet to be approved and will demonstrate the desired effect in subsequent years.

Among the expected changes in the regulation of the market in 2018 - weakening of requirements for issuers to include their securities in the listing of stock exchanges, admission of foreign issuers to trading there, without restrictions concerning availability of assets in Ukraine, along with further currency liberalization and adjusting of the Ukrainian stock market's infrastructure to the requirements of modern realities of international capital markets. Implementation of amendments to the legislation on easing requirements for diversification of investment and pension funds' portfolios is expected to have a positive effect on activities of CII and NPF. As for the "squeeze-out" procedure, its application will have negative consequences, if formation of the buyout price is not based on market principles. Increasing requirements for auditing (and auditors) of funds and of AMCs will also increase expenses of business.

Besides this, further regulators' steps are expected on transition to regulation and supervision of the Ukrainian stock market in accordance with EU rules in the context of implementation of the EU-Ukraine Association Agreement on investment funds and asset management, in particular, drafting of the new law on CII activities, as well as review of prudential requirements for AMC and for the rest of professional market participants.

Pension reform also remains the priority area - introduction of the 2-nd accumulative level, with the significant role for asset management companies.

Market participants, as before, will continue to cooperate actively with regulators to develop a common vision for the phased transformation of the asset management industry in line with Ukraine's international commitments and with the needs for development of the domestic stock market and of national economy, and for a systemic improvement of citizens' welfare.

See additional and statistical information on the UAIB website:

- [The Ukrainian Fund Market in Figures](#)
- [Daily Fund Data](#)
- [Analytical Statistics and Reviews of Publicly Offered Investment Funds: Weekly; Monthly](#)
- [Quarterly & Annual CII Industry Reviews](#)
- [Quarterly Statistics of NPF Under Management](#)
- [Ranking: AMC Rankings; CII Rankings \(by fund types and by fund classes\)](#)

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