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1. The Stock Market

The first three months of 2013 turned out to be extremely successful for well-developed global markets. Stable growth of US indicators continued under conditions of favorable macrostatistics, better than the initially forecasted financial results of corporations, the “budget compromise” reached, and, most important – promises made by the US FRS as regards continuing financial support to the economy until it stabilizes its growth. Finally, US equities reached their five year peak.

Foreign investors’ optimism was strengthened by Japanese equities plummeting up to their four year highs due to unprecedented actions on weakening monetary policy taken by the government and Bank of Japan to cope with deflation. Massive financial injections into the economy made Japanese market a leader for the second quarter in a row, despite the adjustment that occurred by March end and was provoked by taking profits after growth upsurge.

European stock market indicators also demonstrated growth, though a several times lower one. Most active growth in January – March 2013 in the Old World was observed in the equities segment in Great Britain due to production boost, and despite the news on GDP drop by 2012 end. Germany and France, whose economies according to Q4 2012 statistics also somewhat slowed down, demonstrated moderate equity markets growth.

A review by global organizations of their forecasts as regards the dynamics of China economic growth towards lowering, as well as preserving high growth pace compared to the well-developed markets, resulted in an almost “flat” growth of Chinese market in Q1.

Finally, in Q1 2013, leading global equity indexes demonstrated between +2.4% in Germany and +3.1% in France and up to +12.7% in the US and +19.3% in Japan. Russian indicators sagged by 2.5-4.4%, and Polish – consumed a major portion of the preceding quarter’s growth (-8.2%) (Table 1, Chart 1).

Table 1.

National markets’ stock indexes’ dynamics in Q1 2013*

Indexes	31.03.2012	31.12.2012*	31.03.2013	Q4 2012 change	Q1 2013 change	2013 YTD change
NIKKEI 225 (Japan)	10 083.56	10 395.18	12 397.91	17.19%	19.27%	22.95%
DJIA (USA)	13 212.04	12 938.11	14 578.54	-3.71%	12.68%	10.34%
S&P 500 (USA)	1 408.47	1 402.43	1 569.19	-2.65%	11.89%	11.41%
FTSE 100 (Great Britain)	5 768.45	5 925.37	6 411.74	3.19%	8.21%	11.15%
CAC 40 (France)	3 423.81	3 620.25	3 731.42	7.91%	3.07%	8.98%
DAX (Germany)	6 946.83	7 612.39	7 795.31	5.49%	2.40%	12.21%
SHANGHAI SE COMPOSITE (China)	2 262.79	2 233.25	2 236.62	7.05%	0.15%	-1.16%
PFTS (Ukraine)	531.64	328.69	328.63	-11.04%	-0.02%	-38.19%
HANG SENG (Hong Kong)	20 555.58	22 666.59	22 299.63	8.76%	-1.62%	8.48%
MICEX (Russia)	1 517.34	1 474.72	1 438.57	-0.07%	-2.45%	-5.19%
RTS (Russia)	1 637.73	1 526.98	1 460.04	4.71%	-4.38%	-10.85%
UX (Ukraine)	1 421.93	950.56	903.42	-5.69%	-4.96%	-36.47%
WSE WIG 20 (Poland)	2 286.53	2 582.98	2 370.07	8.92%	-8.24%	3.65%

* Based on the data of the exchanges and Bloomberg Agency

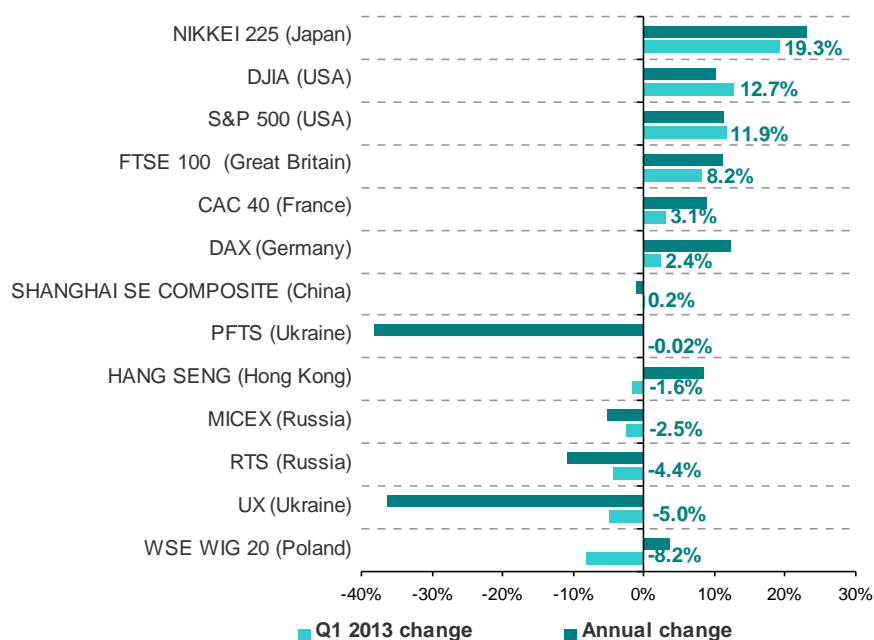


Chart 1. National markets' stock indexes' dynamics in Q1 2013

All in all, in Q1 2013, trading activity continued going down in the major stock trading floors¹. According to UX and SEPE data, over quarter an aggregate trading volume (not taking into account forward market) decreased by 22.1% up to UAH 59.62 bln.

The value of trades made on SEPE in Q1 declined by 22.8% up to UAH 57.52 bln., whilst in the equities' segment it grew by 16% up to UAH 0.29 bln., though the number of transactions here decreased by 28.8%. The volume of trades, just as the number of transactions in corporate bonds made on this exchange, dropped dramatically – by 86.5% and 83.3% up to UAH 0.74 bln., and the greatest sector – of government securities – narrowed by 11.8% up to UAH 56.01 bln., though the number of transactions increased by 9%.

The volume of stock market trades on UX grew by 2.5% up to UAH 2.12 bln., and the number of trades made went down by 14.8%. In the equities' segment, the value of transactions on UX lowered by 6.7% up to UAH 1.62 bln., and the number – by 13.9%. In the meantime, in the corporate bonds' segment market volume grew by 64.8% up to UAH 0.46 bln. in terms of value and by 30.3% in terms of quantity.

Increased volatility during the quarter that ended by a lengthy decline in March finally resulted in UX index sagging by 5% over Q1. PFTS index, after mid-January – beginning of February "jump", lowered only to the level of 2013 by the quarter end.

2. The Number of AMC and CII

In Q1 2013, the number of asset management companies decreased, as participants were more actively exiting the market compared to the pace at which new companies were established. Based on the UAIB data, as of 31.03.2013 there were 348 AMC in operation in Ukraine (-5 after +9 in Q4 2012) (Chart 2).

In the meantime, *the number of registered CII* during the first three months of 2013 continued to grow (+26 funds – just as in the preceding quarter) – up to 1570 funds. As a result, the trend towards strengthening CII market concentration resumed: as of 31.03.2013 there were on average 4.51 funds per one AMC (after 4.37 in Q4 and 4.41 in Q3 2012).

¹ Ukrainian Exchange (UX) and Stock Exchange Perspektiva (SEPE) are meant here, as PFTS data is not available.

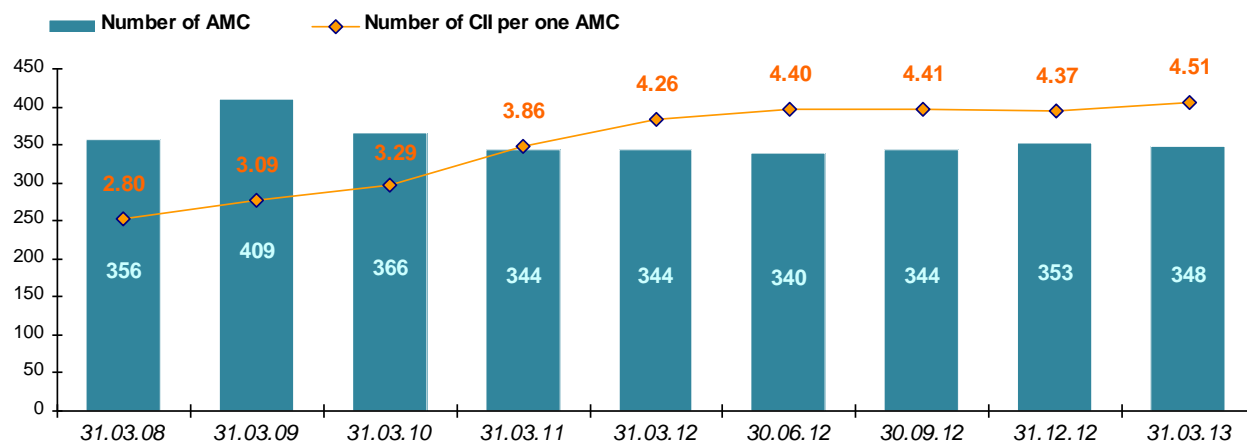


Chart 2. Dynamics of the number of AMC and CII per one AMC in Q1 2008-2013 and during 2013

The number of CII that reached compliance with the standard to minimal asset volume, as per the UAIB data, in Q1 2013 for the first time since Q4 2011 declined – by 9 – up to 1213 funds. That was primarily due to the negative dynamics of venture CII. Several funds in other sectors were liquidated as well, whilst in the rest of sectors 4 recognized funds added (Table 2).

Table 2.

Dynamics of the number of CII that reached compliance with the standards, by fund type and legal form, in Q1 2012-2013

	Total	UIF					CIF		
		O*	*	CD*	CNN*	CV*	*	CNN*	CV*
31.03.2012	1158	42	38	13	39	791	2	124	109
31.12.2012	1222	41	38	13	45	829	2	110	144
31.03.2013	1213	42	38	11	48	826	1	108	139
Q1 2013 change	-9	1	0	-2	3	-3	-1	-2	-5
	-0.74%	2.44%	0.00%	-15.38%	6.67%	-0.36%	-50.00%	-1.82%	-3.47%
Annual change	55	0	0	-2	9	35	-1	-16	30
	4.75%	0.00%	0.00%	-15.38%	23.08%	4.42%	-50.00%	-12.90%	27.52%

The sectors of closed-end non-diversified UIF (+3 after -1 in Q4 2012) and open-ended UIF (+1 after zero growth, as one fund reached compliance with the standards in Q4 and one fund was liquidated) expanded.

The sector of interval CIF folded up to one fund only (-1 over quarter), which is natural due to an inefficient combination of the specific features of an interval CII operation with a corporate form in which it is established.

As of Q1 2013 end the number of CII with the asset value below normative grew from 115 to 118, including of open-ended funds – from 17 to 18 (from 15 in Q4 2012). The greatest share of such CII was observed particularly within open-ended funds – 44% (increased from 42%), and the tiniest – within venture ones – 6% (hardly any changes observed).

Among all registered funds under AMC management as of 31.03.2013 there were 111 funds that were yet to reach compliance with the standards (after 97 in Q3 2012).

According to the classification of publicly issued CII based on their asset structure², in Q1 2013 the number of such CII increased – up to 79 (as of 31.12.2012 – 77).

The number of equity funds and other funds grew by 3 – to 9 and 62 respectively, and of hybrid funds – decreased by 3 (to 7). Only one open-ended CII was present within the class of bond funds (in Q4 – 2). Among equity funds there were 4 open-ended CII, and among hybrid funds – 2.

² See Rankings "CII (diversified publicly offered) – by fund class": <http://www.uaib.com.ua/analituaib/rankings/ici.html>



“Other funds” (such that did not meet the criteria to the classes of equity, bond and hybrid funds) in Q1 comprised 79% of diversified public CII (after 77% as of 2012 end). (Chart 3).

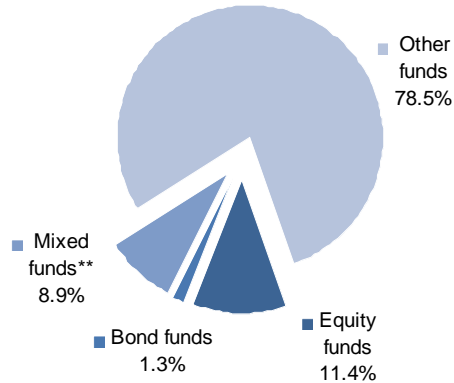


Chart 3. Diversified publicly placed CII, by the classes of funds as of 31.03.2013

3. The Regional Distribution of AMC and CII

The number of asset management market participants in Q1 decreased owing to Kiev region. There were 4 AMC here that entered the market, but the total number of companies decreased by 6 to 241 (Chart 4), which, compared to preceding quarter, was an opposite movement. As regards other regions, changes were observed solely in Kherson region, where one AMC added.

Finally, the share of Kyiv and region within the regional distribution of the market by AMC number continued narrowing in Q1 and for the first time went below 70% – to 69.3%.



Chart 4. Regional distribution of AMC number as of 31.03.2013

Within CII distribution by regions, the share of Kyiv and region, on the contrary, continued to grow in Q1 2013 – from 70.2% to 70.5%. The respective shares of Dnipropetrovsk and Donetsk also broadened, though not that significantly. Other regions beyond the five leaders narrowed their respective shares within CII market distribution by the number of funds (Chart 5).

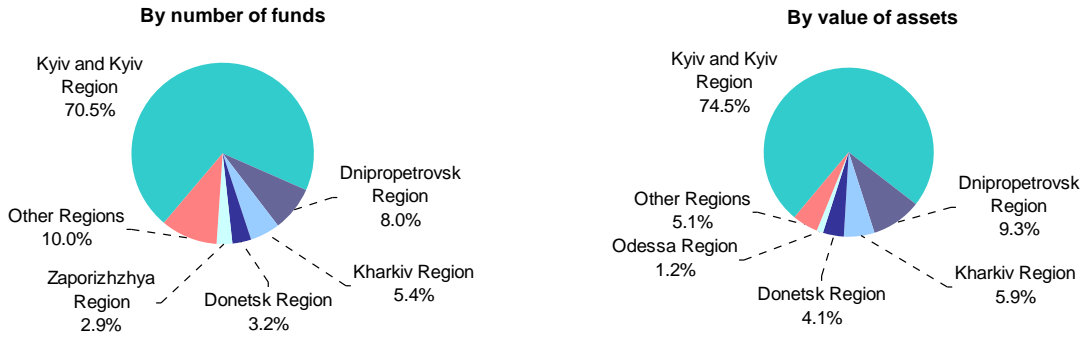


Chart 5. Regional distribution of CII by the number of CII and the value of their assets under management, as of 31.03.2013

As a result, continued the trend of the last months of 2012 towards *redistribution of CII assets under management* to the benefit of Kyiv and region, whose share in Q1 2013 broadened from 74.4% to 74.5%. Among the rest of regions-leaders only Donetsk region grew its respective share - from 5.7% to 5.9%, which reversed the trend of the preceding quarter. The assets of CII registered in all other regions of Ukraine as of 31.03.2013 still comprised slightly over 5% of the market

4. The Asset and the Net Asset Value of CII. The Net Inflow of Open-Ended CII

Absence of significant positive changes in the national stock market, as well as preservation of a moderately downward trend in Q1 2013 continued to pressure CII market, in particular – the sectors of open-ended and interval funds. The venture sector also behaved traditionally – grew, though not so actively as before.

At that, it is worth noting that the number of funds included into the calculation based on the reports filed with the UAIB remained unchanged among open-ended and venture funds, and among interval and closed end (non-venture) ones – significantly decreased – from 35 to 32 and from 145 to 132 respectively. Moreover, the makeup of open-ended and venture funds was different from the one of the preceding quarter, therefore, despite an unchanged number of reports, that also to certain extent affected changes in the asset value and NAV of the relevant CII sectors.

Thus, as of 31.03.2013, an **aggregate total value of CII assets** reached UAH 158 327.73 mln. Quarterly growth demonstrated a sharp decline – to +UAH 1 126.60 mln. (+0.7%), at that in venture CII – to +UAH 2 216.41 mln. (+1.5%), with their assets reaching UAH 148 128.71 mln. (Chart 6).

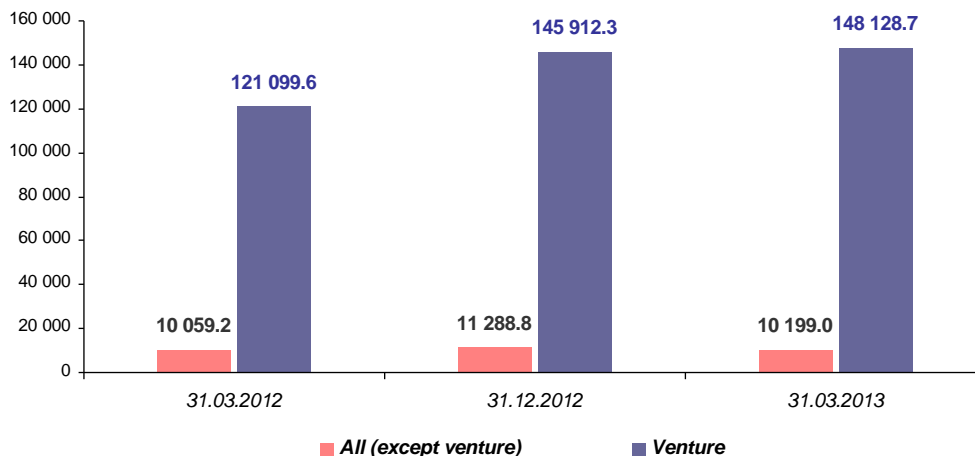


Chart 6. Dynamics of the asset value of CII in Q1 2012-2013



The net assets of CII followed total assets and in Q1 2013 decreased in all sectors of funds, including venture ones, where the above mentioned asset growth resulted from accumulation of liabilities. In such way, the NAV of venture CII as of 31.03.2013 was UAH 665.00 mln. lower (-0.5%) – UAH 128 833.42 mln. (Table 3).

In open-ended, interval and the rest of closed-end CII net asset value, on the contrary, decreased less than the total assets, in other words, these funds' debts decreased. Furthermore, open-ended NAV decline in Q1 slowed down ten times – to –UAH 1.96 mln. (-1.22%), and as of quarter end these funds held UAH 158.58 mln.

Interval funds sector decreased its NAV 1,5 times more compared to Q4 2012 – by UAH 12.94 mln. (-8.3%). However, according to the data of 32 funds taken into account in Q1 calculations, their respective NAV dropped by UAH 5.9 mln. (-4.0%). Just as before, this CII sector was the smallest one with net assets reaching UAH 143.05 mln.

The sector of closed-end CII (with exception of venture ones) demonstrated NAV decline by UAH 645.26 mln. (-6.8%) – also to a certain extent due to fewer reports filed by these CII. Their aggregate NAV reached UAH 8 800.37 mln.

Thus, the NAV of all CII in Q1 2013, for the first time since the UAIB had started preparing quarterly statistics, decreased – by UAH 1 325.16 mln, or almost -1% (after +UAH 12 556.83 mln. in preceding quarter) – and as of 31.03.2013 comprised UAH 137 935.42 mln.

Table 3.

Dynamics of the NAV of CII, by the types of funds, in Q1 2012-2013, UAH mln.

Funds	31.03.2012	31.12.2012	31.03.2013	Q4 2012 change	Q1 2013 change	Annual
Open-ended	206.40	160.54	158.58	-10.67%	-1.22%	-23.17%
Interval	179.27	156.00	143.05	-5.38%	-8.30%	-20.20%
Closed-end (venture excluded)	8 987.08	9 445.63	8 800.37	0.62%	-6.83%	-2.08%
All (venture excluded)	9 372.76	9 762.16	9 102.00	0.31%	-6.76%	-2.89%
Venture	104 928.54	129 498.42	128 833.42	10.71%	-0.51%	22.78%
All (venture included)	114 301.30	139 260.58	137 935.42	9.91%	-0.95%	20.68%

Based on NAV decrease pace in Q1 2013, which proved to be the greatest in the sector of interval CII and the lowest (without taking venture funds into account) – in open-ended CII, the market share redistributed in favor of the latter (from 1.6% to 1.7%). Interval funds' share already amounted to less than 1.6% of non-venture CII NAV, and closed-end ones, though their share also somewhat narrowed, just as before, made up to almost 97% (Chart 7).

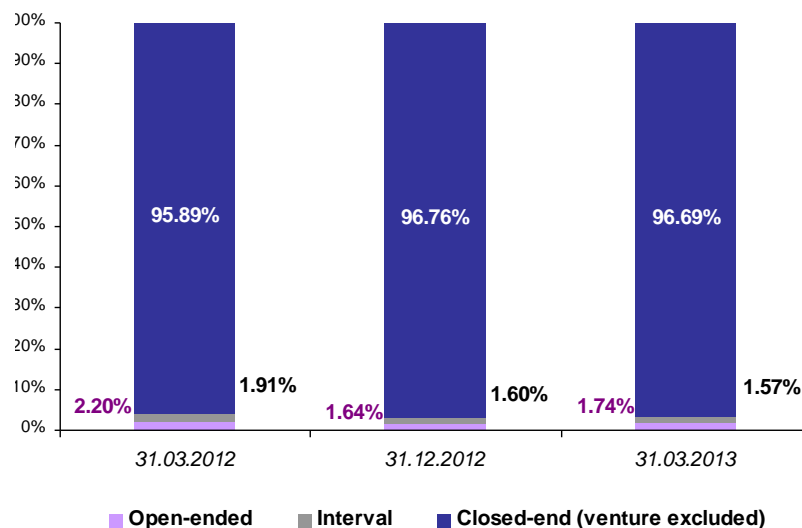


Chart 7. Dynamics of non-venture CII NAV breakdown by the types of funds in Q1 2012-2013



Within the total CII market NAV, venture funds, which experienced a minor net asset decline in Q1, traditionally grew their share: it increased from 93.0% to 93.4% (Chart 8).

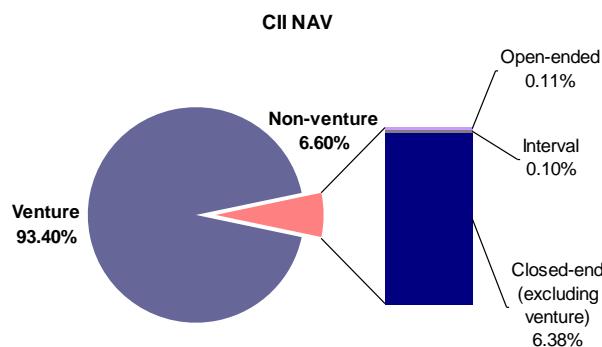


Chart 8. Distribution of CII NAV by the types of funds as of 31.03.2013

Capital outflow from open-ended CII at the start of 2013 slowed down abruptly, and in March – for the first time during 21 months (since June 2011) – was replaced with a net inflow to the sector (+UAH 1.30 mln.) (Chart 9, Table 4). And, though the quantity of funds increased by one (41 versus 40 in Q3-4 2012), just as earlier, one fund made a decisive contribution to the cumulative result. Only in March its net inflow was almost three times greater than the indicator of the whole sector (+UAH 4 mln.).

All in all, the quantity of open-ended CII that each and every month had additional capital inflow continued to grow (from 4-5 to 3-7 funds). Among them were equity funds, as well conservative funds. Having attracted more and more money from investors each month, all together they generated UAH 7.42 mln. worth of net inflow during Q1 2013 (compared to UAH 2.29 mln. during Q4 2012). There were also permanent outsiders in the sector that during the quarter lost UAH 1.5-1.7 mln. each, and the total number of funds that experienced net outflow each month reached 17-23.

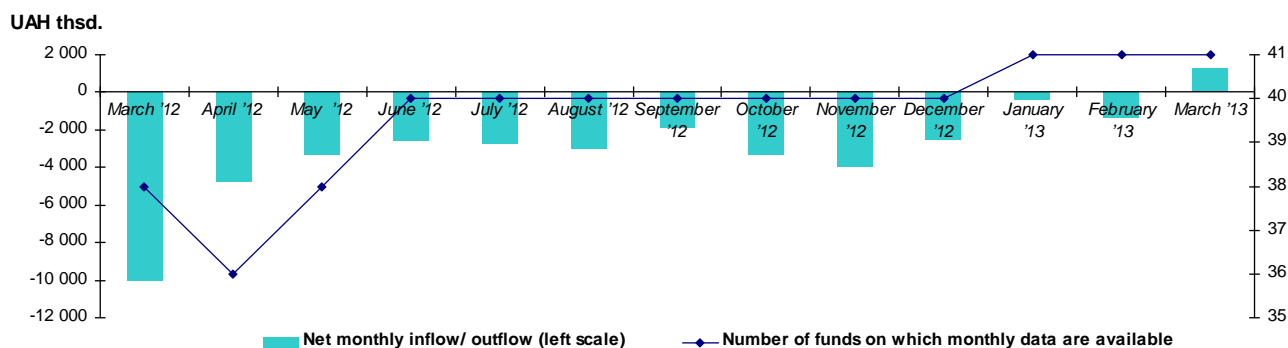


Chart 9. Monthly net inflow/ outflow of capital in open-ended CII in March 2012-2013 (based on daily data)

Table 4.

Monthly net inflow/ outflow of capital in open-ended CII in March 2012-2013

Period	Net monthly inflow/ outflow	Number of funds on which monthly data are available
March '12	-10 031.73	38
April '12	-4 747.91	36
May '12	-3 322.54	38
June '12	-2 579.38	40
July '12	-2 690.07	40
August '12	-3 024.80	40
September '12	-1 872.90	40
October '12	-3 333.35	40
November '12	-3 962.74	40
December '12	-2 531.93	40
January '13	-362.77	41
February '13	-1 391.73	41
March '13	1 297.12	41



Finally, an aggregate net outflow from open-ended CII in Q1 2013 reached UAH 0.46 mln., which may be regarded as an end of a lengthy period of outflow (Chart 10) and confirms positive investors' opinion as regards further stock market dynamics prospects.

During the last year, withdrawals of capital from open-ended funds by investors decreased almost twice (-UAH 28.52 mln. as of 31.03.2013 compared to -UAH 54.04 mln. as of 31.12.2012).

Naturally, the impact of capital movement on open-ended funds' NAV in Q1 also diminished: the outflow reached only 23% of the sector quarterly net asset decrease (after 51% in Q4 2012). During the last year, the share of outflow within the net asset decrease dropped from 81% to 60%.

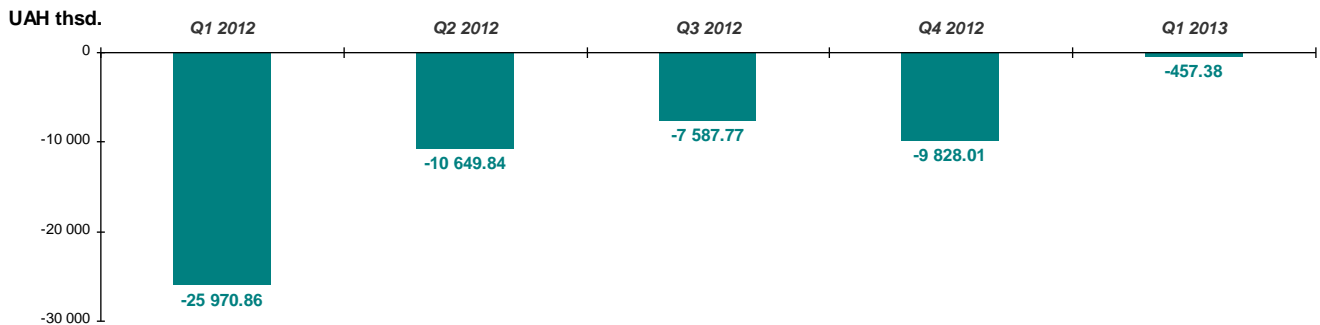


Chart 10. Net inflow/ outflow of capital in open-ended CII in Q1 2012-2013

A gradual development of positive tendencies, namely, subsiding outflow and growing inflow of capital to open-ended funds observed in Q1 2013 in Ukraine followed the trends observed in well-developed markets at that time, though the level of confidence and the scope of capital inflow there significantly exceeded the national market indicators.

For instance, as investor confidence increased due to global financial markets' strengthening at the start of 2013, European open-ended investment funds (UCITS) almost doubled quarterly net inflow – up to EUR 130 bln., which broke the records since Q1 2006. At that, the net assets of these institutions grew by 5.5% up to EUR 6 641 bln³. Long-term funds (without money market funds) attracted even more – EUR 132 bln. (after EUR 106 bln. in Q4 2012), including bond funds – EUR 44 bln. (after 61), equity funds – EUR 44 bln. (after 30), balanced funds – EUR 36 bln. (after 13). Money market funds in the meantime continued losing investors, though outflow did go down to EUR 2 bln (from 28 bln).

5. The Investors of CII

According to the data of reports filed by funds with the UAIB, the leadership of *legal entities-residents of Ukraine* as primary investors of CII in Q1 2013 remained unchanged. In the meantime, the share of this category went on narrowing (from 80.0% to 77.5%) together with the amount of moneys within CII belonging thereto by UAH 4 711.43 mln. compared to the preceding quarter. Aggregate contributions of national companies demonstrated nominal growth solely in open-ended funds.

Among other investor categories most actively in Q1 behaved *natural persons-residents* (in open-ended and closed-end CII, with exception of venture ones) and *legal entities-non-residents* (in venture ones).

As a result of such dynamics of investments of different categories of CII contributors, a notable redistribution within the structure of funds' participants occurred. The respective share of *citizens of Ukraine* within CII in aggregate grew from 3.9% to 4.2%, and not taking venture funds into account – from 23.8% to 27.4%. The share of *foreign investors*, primarily *companies*, within CII NAV also notably increased – from 16.1% to 18.3% (Table 5, Chart 11).

³ See [EFAMA Quarterly Statistical Release Q1 2013](#).



Table 5.

CII NAV breakdown by the categories of investors as of 31.03.2013, % of NAV

Funds	Legal entities		Natural persons	
	residents	non-residents	residents	non-residents
Open-ended	43.29%	8.30%	48.15%	0.25%
Interval	54.16%	0.81%	44.95%	0.08%
Closed-end non-venture	65.16%	7.94%	26.70%	0.19%
All (non-venture)	64.59%	7.83%	27.38%	0.19%
Venture	78.40%	18.98%	2.58%	0.03%
All (venture included)	77.52%	18.26%	4.17%	0.04%

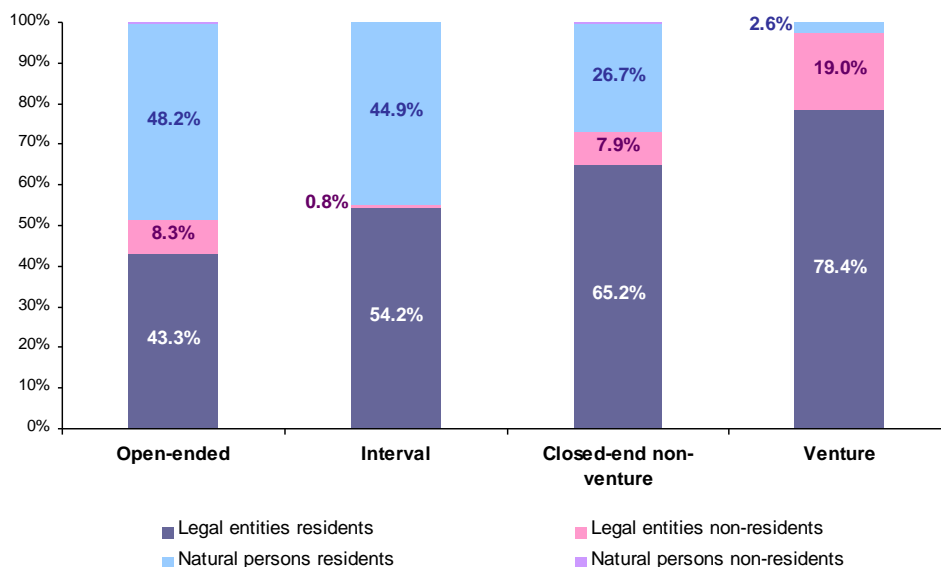


Chart 11. CII NAV breakdown by the categories of investors as of 31.03.2013, % of NAV

In **open-ended CII** in Q1 2013 *foreign legal entities* went on significantly decreasing the amount of their contributions (-UAH 4.52 mln). At that, *citizens of Ukraine* abruptly changed their behavior and increased their investments by UAH 1.94 mln. That was due to both actions of contributors themselves, who were withdrawing moneys from funds or were making additional acquisitions of securities, and the value dynamics of these CII portfolios, which was considerably different in each particular fund. All in all, the share of *natural persons-residents* in open-ended funds broadened from 46.4% to 48.2%, and of *legal entities-non-residents* – narrowed from 11.0% to 8.3%. A reserved position of *national legal entities* in this situation ensured a further increase of their share from 42.5% to 43.3%.

In the sector of **interval CII** the contributions of residents – citizens, as well as companies – decreased by UAH 5.23 mln. and UAH 7.55 mln. respectively, which resulted in the sector NAV redistribution to the benefit of the former: the share of *natural persons-residents* grew from 44.6% to 45.0%. The share of the major category of these CII investors – national companies – narrowed from 54.5% to 54.2%, having returned to the level of Q3 2012.

In **closed-end CII (with exception of venture ones)**, according to Q1 data, the moneys of *legal entities-residents* also decreased significantly (-UAH 1 044.84 mln.), which, as other categories of contributors were growing investments, further narrowed their share – from 69.9% to 65.2%. *Natural persons-residents*, whose aggregate investments added UAH 94.23 mln, grew their share in closed-end CII from 23.1% to 26.7%.

In **venture CII** in Q1 a decrease occurred in the contributions of the key investor category – *legal entities-residents* (-UAH 3 659.50 mnl.), whilst the contributions of other investor categories grew, therefore, the share of the former notably narrowed (from 80.8% to 78.4%). Under such circumstances, an increase of the investments of *foreign companies* (+UAH 2 707.20 mln.) expanded their participation in these CII from 16.8% to 19.0%.



6. The Asset Structure of CII

Beginning of 2013 continued the key trends of the investment structure dynamics of investment funds by the **types of instruments** started in the preceding year. However, that did not apply to venture CII where the key structural changes during the said period were opposite to those registered in Q4 2012.

In all CII sectors, with exception of interval ones, the share of **equities** went on decreasing, whilst the share of **“other assets”**⁴ (with exception of venture CII) was increasing.

Interval and closed-end funds, despite different CII makeup and a different number of CII filed reports in Q1 2013 compared to Q4 2012, also all in all preserved the tendencies of asset structure characteristic of preceding quarters – in particular, broadening of the share of moneys and “other” assets, and narrowing – of government securities. In interval funds the share of corporate debt securities once again narrowed, and the one of equities – broadened; in closed end funds – vice versa.

In the meantime, in open-ended funds a relative decrease of the assets in debt securities of the state and companies in Q1 became a new trend, just as a growing share of municipal bonds.

In the most stable sector by funds' makeup – the one of open-ended CII – the share of **securities** went on narrowing – from 58.8% to 52.3%. It also narrowed in interval and closed-end CII – from 74.8% to 72.4% and from 58.2% to 55.5% respectively. In open-ended CII the assets held in **securities** in monetary terms decreased by UAH 7.14 mln., including by UAH 3.24 mln. in corporate bonds, and by more than UAH 2 mln. each – in equities and OVDP. In the meanwhile, moneys on bank accounts grew significantly (+UAH 4.39 mln.).

A common trend for all CII sectors in Q1 was an increase in the share of **moneys in banks**, opposite to the preceding quarter trend (Chart 12).

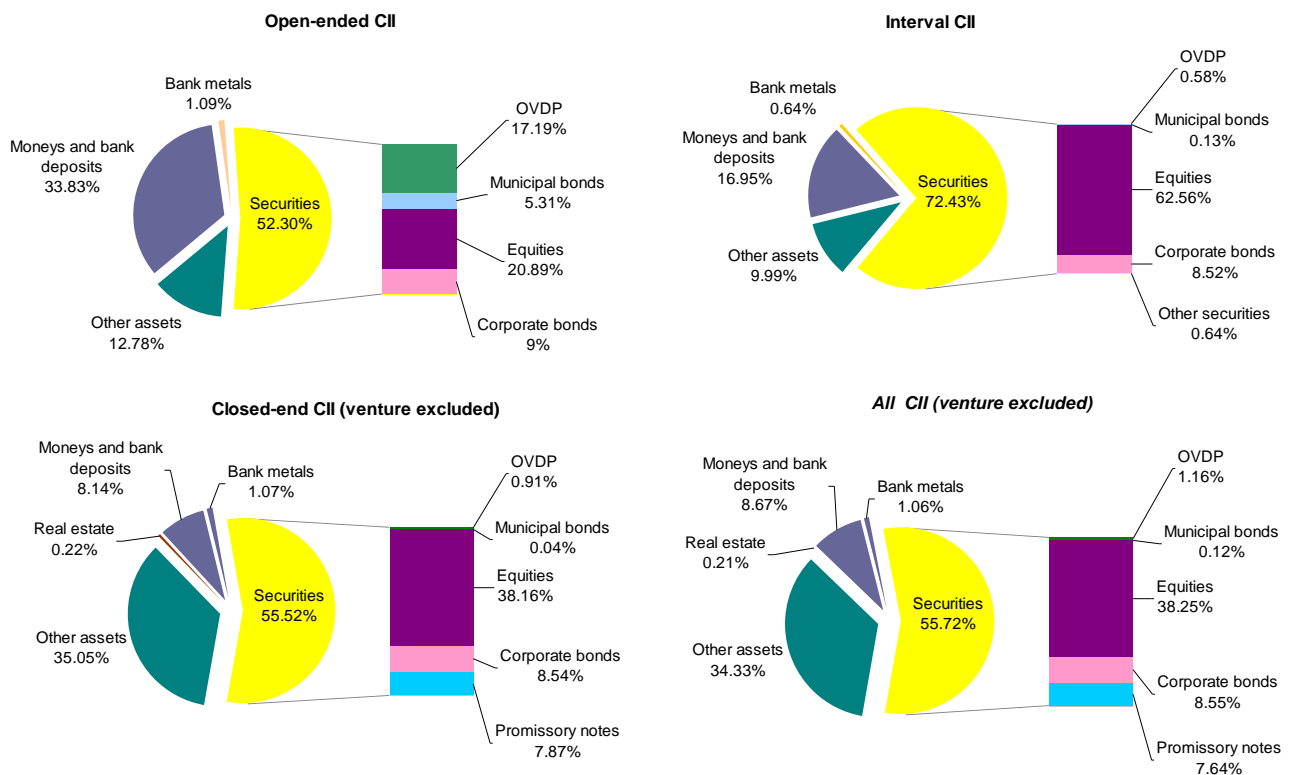


Chart 12. Non-venture CII asset structure, by the types of funds as of 31.03.2013

The key changes in the structure of the aggregate CII portfolios by the types of funds in Q1 2013 were as follows:

⁴ “Other assets” include receivables, corporate rights in other forms than securities, as well as loans to the companies, a stake in the capital of which belongs to the CII (for venture funds).

**Open-ended funds**

Increase of the share of investments into such instruments:

- moneys and bank deposits – from 30.5% to 33.8%;
- “other assets” – from 12.7% to 12.8%;
- municipal bonds – from 5.0% to 5.3%;

Decrease:

- equities – from 21.8% to 20.9%;
- OVDP – from 18.2% to 17.2%;
- corporate bonds – from 10.7% to 8.9%.

Interval funds

Increase:

- equities – from 61.1% to 62.6%;
- moneys and bank deposits – from 14.8% to 17.0%;
- “other assets” – from 9.8% to 10.0%;

Decrease:

- corporate bonds – from 9.8% to 8.5%;
- OVDP – from 3.2% to 0.6%.

Closed-end (with exception of venture) funds

Increase:

- “other assets” – from 34.2% to 35.1%;
- corporate bonds – from 6.4% to 8.5%;
- moneys and bank deposits – from 6.3% to 8.1%;
- promissory notes – from 7.1% to 7.9%;
- savings certificates – from 0% to 0.47%.

Decrease:

- equities – from 43.1% to 38.2%;
- OVDP – from 1.6% to 0.9%.

An aggregate portfolio of **venture CII** in Q1 2013 changed earlier established trends as regards all key investment directions. For instance, the share of **securities** grew from 31.2% to 31.9% (after narrowing by 32.3% in the preceding quarter) – owing to promissory notes, savings certificates and corporate bonds, whilst the respective shares of equities and “other assets” – on the contrary decreased. Trends of Q4 2012 continued solely in narrowing of the real estate share (Chart 13).

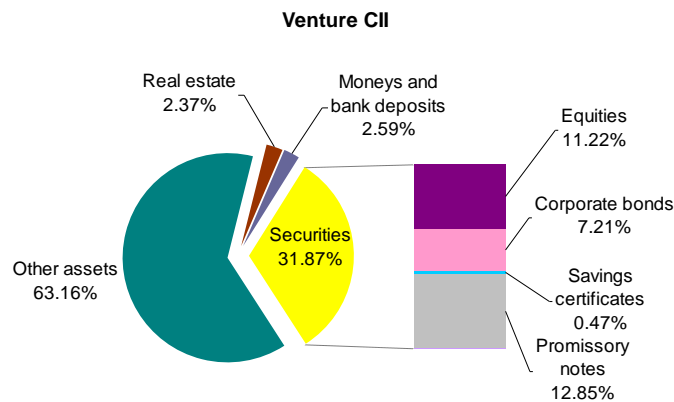


Chart 13. Venture CII asset structure as of 31.03.2013

In monetary terms, **securities** in venture funds during Q1 grew by UAH 2 036.81 mln. (after +UAH 3 255.72 mln. In Q4 2012), including owing to **promissory notes** – by UAH 978.93 mln., **savings certificates**, which once again returned to these CII aggregate portfolio, – by UAH 694.96 mln. and **corporate bonds** – by UAH 431.87 mln. A major decrease of investments occurred in those into in OVDP – by UAH 46.77 mln.



Among the rest of investment components the greatest growth was observed in “other” assets of venture funds (+UAH 669.71 mln., after +UAH 11 270.80 mln. in Q4 2012), though their share within the aggregate portfolio narrowed as its other components were growing more dynamically. For instance, traditionally small share of *moneys* added UAH 654.57 mln.

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

Increase:

- promissory notes – from 12.5% to 12.9%;
- corporate bonds – from 7.1% to 7.2%;
- moneys and bank deposits – from 2.2% to 2.6%;

Decrease:

- “other assets” – from 64.1% to 63.2%;
- equities – from 11.5% to 11.2%;
- real estate – from 2.5% to 2.4%.

In Q1 2013, for the second time in a row, *equities* became **the greatest, by an aggregate value of investments thereto, group of securities** within the aggregate portfolio of all CII, even though their aggregate value within funds’ assets decreased by an almost UAH 1 bln., to UAH 20 468.87 mln. Therefore, the share of equities within CII investments into stock market instruments narrowed from 41.5% to 38.8% (Table 6).

The above was promoted by increases of assets in other types of securities, in particular *promissory notes*, also almost by UAH 1 bln. to UAH 19 760.77 mln., which expanded their respective share within the aggregate portfolio from 36.4% to 37.5%.

Corporate bonds remained popular and kept the third place by CII investment volumes – UAH 11 525.24 mln. (21.9% after 21.2% in Q4 2012), which was backed up by growing investments thereto by UAH 573.74 mln.

A return of savings certificates into the portfolio of venture funds is worth noting, which, though accounting for only 1.3% of the aggregate investments into all CII securities, were behind only three traditionally greatest categories.

All in all, CII securities portfolio over the first three months of 2013 grew almost three times slower compared to the preceding quarter – by UAH 1 131.28 mln., to UAH 52 747.15 mln.

Table 6.

Value breakdown of CII aggregate securities portfolio, by the types of instruments, as of 31.03.2013

Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	20 468 868 942	38.81%
Promissory notes	19 760 771 022	37.46%
Corporate bonds	11 525 239 565	21.85%
Savings certificates	694 956 710	1.32%
Mortgage securities	144 015 412	0.27%
Internal state loan bonds (OVDP)	133 686 695	0.25%
Municipal bonds	16 020 128	0.03%
Treasury bonds	44 000	0.00%
<i>Other</i>	3 546 913	0.01%
Total	52 747 149 388	100.00%

A consolidated portfolio of **open-ended, interval and closed-end (with exception of venture ones) CII** in January – March 2013 decreased by UAH 905.53 mln. *Equities* became the key driver here, as the assets in equities decreased by UAH 956.29 mln. to UAH 3 900.62 mln., and their share within the investment portfolio narrowed from 73.7% to 68.6%. The assets of these funds in OVDP also underwent a notable decrease – by UAH 92.58 mln., from 3.2% to 2.1% (Table 7).

Moneys held by non-venture funds in *corporate bonds* demonstrated the greatest growth (+UAH 141.87 mln.) and in amount UAH 871.81 mln. comprised 15.3% of the aggregate portfolio (after 11.1% in the preceding quarter).



As a result, as well as due to a certain decrease in the aggregate value of investments into *promissory notes*, these securities in Q1 2013 returned to the third place by popularity with CII (with exception of venture ones). However, owing to a faster cut of assets held by the funds in equities, the share of promissory notes broadened from 11.9% to 13.7%.

Table 7.

Value breakdown of non-venture CII aggregate securities portfolio, by the types of instruments, as of 31.03.2013

Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	3 900 624 111	68.64%
Corporate bonds	871 908 469	15.34%
Promissory notes	778 955 547	13.71%
Internal state loan bonds (OVDP)	118 226 345	2.08%
Municipal bonds	12 336 609	0.22%
Other	809 891	0.01%
Total	5 682 860 972	100.00%

7. The Rate of Return of CII

Under conditions of high volatility and a certain adjustment of stock market trend, in Q1 2013 the performance of CII market by rate of return on investments was gradually improving.

Open-ended CII once again generated lowest average rate of return on investments, though it confirmed preservation of investments' value at virtually same level (-0.1% after -4.5% in Q4 2012). *Interval funds* led by the rates of return earned (+6.2% after -2.0%). *Closed-end CII* with indicator +2.5% (after +5.86%) were behind *deposits in Hryvnia* only⁵ (+4.9%) (Chart 14).

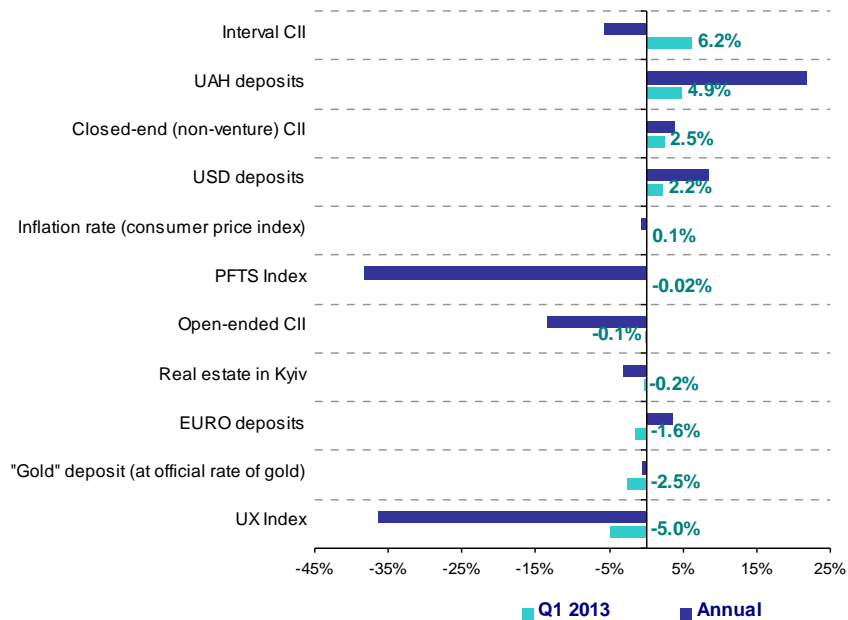


Chart. 14. Average rates of return – CII, deposits, equity indexes and inflation rate in Q1 2013 and annually⁶

⁵ It is necessary to take into consideration the liquidity of CII, in particular, of open-ended type, which allows to exit from investments on any working day without losing returns, unlike in case of bank deposits, the prevailing majority of which envisage re-calculation of interest income in case of an early release of moneys based on the rate of return on current accounts (up to 3% per annum). In the meantime, the rates of return calculated do not take into account possible commissions, other costs incurred at entry to/ exit from funds, as well as investment profit taxation.

⁶ CII rates of return are calculated based on the reporting data for Q1 2013 (41 open-ended, 32 interval and 131 closed-end CII) and Q4 2012 (40 open-ended, 35 interval and 143 closed-end CII) - see Ranking of the rates of return of open-ended, interval and closed-end funds. The inflation rate provided is based on the State Statistics Committee data (Consumer price indexes – 2012). Return on real estate is calculated as an average based on the data on real estate value from web portals: <http://www.domik.net>, <http://100realty.ua>, <http://realt.ua>.



In the meantime, just as before, funds demonstrated notably different performance depending not only on the type of CII, but also investment strategy and actual makeup of assets.

Among **open-ended CII** in Q1 2013 there were two funds, one of which lost more than 30% of certificates' value, and the other one -added. The securities of two other funds of the same type depreciated by more than 10%, and of one other fund - added 15% in price. All in all, a virtually zero average rate of return reflects symmetrical distribution of the rates of return within the sector both by maximum and minimal values, and number of funds generating either profit or loss. In such way, investors of 20 out of 41 funds increased value of their investments (after 15 out of 40 in Q4 2012).

A material difference in the rates of return earned in the sector of **interval CII** was still observed in Q1: performance of one fund, which had been among outsiders in the preceding quarter, this time amounted for over 85%, and of one more – over 60%. The rest of indicators lagged behind significantly (22% and lower). Not taking into account these extreme values, interval funds on average earned +1.8%, which is almost commensurate with the *rates of return on bank deposits in USD (+2.2%)*. Increase of certificates' value was ensured by 20 out of 32 these CII (after 14 out of 35 in Q4 2012), and 8 funds generated rates of return above those on Hryvnia deposits.

Rates of return of different **closed-end CII** also varied greatly: 2 funds more than doubled their certificates' value increase, whilst the closest growth indicator reached 40%, and the lowest one – went below -40%. Thus, for 129 funds of this type an average rate of return comprised +0.23%. All in all, *positive dynamics of investments was demonstrated by 52 out of 132 closed-end funds*, which is virtually similar to the picture of Q4 2012 – 58 out of 143 funds.

5 open-ended and 8 interval CII generated greater rates of return than those on bank deposits in Hryvnia (2 each by 2012 end), and among closed-end funds – 22 (in Q4 2012 – 20) funds.

The dynamics and distribution of the rates of return of **diversified publicly placed CII** by classes of funds (based on their current asset structure) in Q1 2013 clearly reflects the course of events in the stock market.

In such way, *bond funds* led at least for the second quarter in a row (+3.3% after +1.3%); *equity funds*, after losing Q4 (-8,9%) generated +1,7%; hybrid funds remained among outsiders (-2.2% after -5.0%), having failed to fully use temporary rise in the stock market in mid-quarter; and the greatest category of "other funds" (61 out of 78 diversified public CII) encompassed funds with very different performance results and finally demonstrated +0.4% during Q1(after -2.4% in the preceding quarter) (Chart 15).

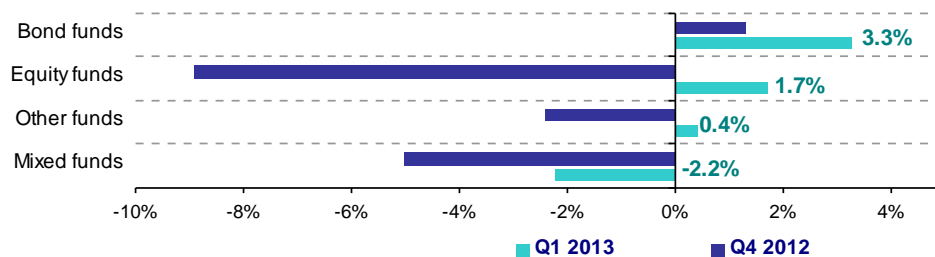


Chart 15. Average rates of return of diversified publicly placed CII, by the classes of funds

8. Resume

The Ukrainian stock market dynamics at the start of 2013 was differently directed, just as the performance results of the collective investment institutions industry. Prevailing downward pressure restrained positive tendencies of funds' activities.

Key trends of the Ukrainian CII market in Q1 2013 confirmed changes in the traditional patterns of industry development and trends of preceding quarters. Among them should be noted a decrease in the number of market participants – AMC and funds that reached compliance with the standards; at a further growth of the industry's aggregate assets – a drop of NAV in all its sectors; slowing down, almost to zero, of capital outflow from open-ended funds; growth of CII liquidity and rates of return in all types and classes of funds.



An outflow of non-residents' investments from open-ended funds was going on as foreign capital continued exiting from the financial system of Ukraine. In the meantime, in venture funds, foreign entities' contributions (in particular those of companies) grew significantly. National business entities, on the contrary, were decreasing their presence in venture CII. Citizens of Ukraine started investing actively into open-ended funds, not avoiding closed-end (particularly, venture) CII at that.

Additional information on CII in the UAIB website:

- Funds' Daily Data (publicly offered CII):
[Open-ended Funds](#)
[Interval Funds](#)
[Closed-end Funds](#)
- Analytical reports and statistics of publicly offered CII:
[Weekly](#)
[Monthly](#)
- [CII Rankings](#):
CII – by the types of funds
CII – by the classes of funds