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## 1. Stock Markets: Ukraine and the World

Formed in the 2nd quarter downward trend kept on the key world stock markets also in the 3rd quarter of 2015. Referendum in Greece concerning acceptance of the EU and other creditors' conditions of the financial rescue of the state – and, in fact, its possible exit from the euro zone and even from the EU - took place at the beginning of the quarter and increased turbulence in European and other international markets. Indices in France and Germany fell in the 2nd quarter because of the Greek crisis, and after that in the 3rd quarter they again responded to it the most sharply among others in Europe (almost -7.0% and -11.7%, respectively). Equities in the Great Britain fell similarly to the French ones (over -7.0%) (Table 1).

After solving the Greek problem there was correction upward before mid-July, but drop, even steeper and deeper than in early July, happened in the second half of August. It was caused by the devaluation of yuan and preceded to it stock market crash in China - and, as a result, momentary weakening of the leading countries' positions in the international trade with China.

In September, moderate lateral movement prevailed again in the leading markets.

Key USA indices also showed the similar dynamics and results (-6.9% and -7.6%). The USA stock indices reacted the most sensitive to events in China in late August, when Chinese equities fell two days in a row by 7-8%. Also, investors in USA assets were increasingly prepared for the rise of the base rate by Fed, that was only a question of time.

The Chinese market fell during the 3rd quarter - by 28.6%, but at the annual interval kept the year's index as +29.1%. Russia's RTS remained at outsider's position (-16.6% and -30.2%, respectively), although the "partner" of its ruble, the MICEX index, was the leader in July-September – dipped only by 0.7% and for the year received +16.4%, ie gave way only to main Chinese index. Japanese equities, which were among the growth leaders since the beginning of the year (+7.5%), lost for the quarter 14.1%.

Table 1. National Markets' Stock Indexes' Dynamics in Q3 2015\*

Indexes	30.06.2015	30.09.2015	Q3 2015	YTD	Annual Change
MICEX (Russia)	1 654.55 <sup>1</sup>	1 642.97 <sup>1</sup>	-0.7%	17.6% <sup>1</sup>	16.4%
FTSE/JSE Africa All-Share Index (PAR)	51 806.95 <sup>1</sup>	50 088.86 <sup>1</sup>	-3.3%	0.7% <sup>1</sup>	1.5%
Cyprus SE General Index (Cyprus)	78.00 <sup>1</sup>	74.51 <sup>1</sup>	-4.5%	-11.9% <sup>1</sup>	-33.1%
SENSEX (Mumbai SE) 30 (India)	27 780.83 <sup>1</sup>	26 154.83 <sup>1</sup>	-5.9%	-4.6% <sup>1</sup>	-1.8%
S&P 500 (USA)	2 063.11 <sup>1</sup>	1 920.03 <sup>1</sup>	-6.9%	-7.7% <sup>1</sup>	-2.6%
CAC 40 (France)	4 790.20 <sup>1</sup>	4 455.29 <sup>1</sup>	-6.99%	4.9% <sup>1</sup>	0.9%
FTSE 100 (Great Britain)	6 520.98 <sup>1</sup>	6 061.61 <sup>1</sup>	-7.04%	-7.4% <sup>1</sup>	-8.8%
DJIA (USA)	17 619.51 <sup>1</sup>	16 284.70 <sup>1</sup>	-7.6%	-9.4% <sup>1</sup>	-4.4%
BIST 100 National Index (Turkey)	82 249.53 <sup>1</sup>	74 205.47 <sup>1</sup>	-9.8%	-12.2% <sup>1</sup>	-1.0%
WSE WIG 20 (Poland)	2 317.84 <sup>1</sup>	2 066.37 <sup>1</sup>	-10.8%	-10.8% <sup>1</sup>	-17.4%
DAX (Germany)	10 944.97 <sup>1</sup>	9 660.44 <sup>1</sup>	-11.7%	-1.5% <sup>1</sup>	2.0%
UX (Ukraine)	1 012.20 <sup>1</sup>	872.35 <sup>1</sup>	-13.8%	-15.6% <sup>1</sup>	-19.0%
NIKKEI 225 (Japan)	20 235.73 <sup>1</sup>	17 388.15 <sup>1</sup>	-14.1%	-0.4% <sup>1</sup>	7.5%
PFTS (Ukraine)	350.84 <sup>1</sup>	301.09 <sup>1</sup>	-14.2%	-22.2% <sup>1</sup>	-28.9%
Ibovespa Sao Paulo SE Index (Brazil)	53 080.88 <sup>1</sup>	45 059.34 <sup>1</sup>	-15.1%	-9.9% <sup>1</sup>	-16.7%
RTS (Russia)	939.93 <sup>1</sup>	784.11 <sup>1</sup>	-16.6%	-0.8% <sup>1</sup>	-30.2%
HANG SENG (Hong Kong)	26 250.03 <sup>1</sup>	20 846.30 <sup>1</sup>	-20.6%	-11.3% <sup>1</sup>	-9.1%
SHANGHAI SE COMPOSITE (China)	4 277.22 <sup>1</sup>	3 052.78 <sup>1</sup>	-28.6%	-3.6% <sup>1</sup>	29.1%

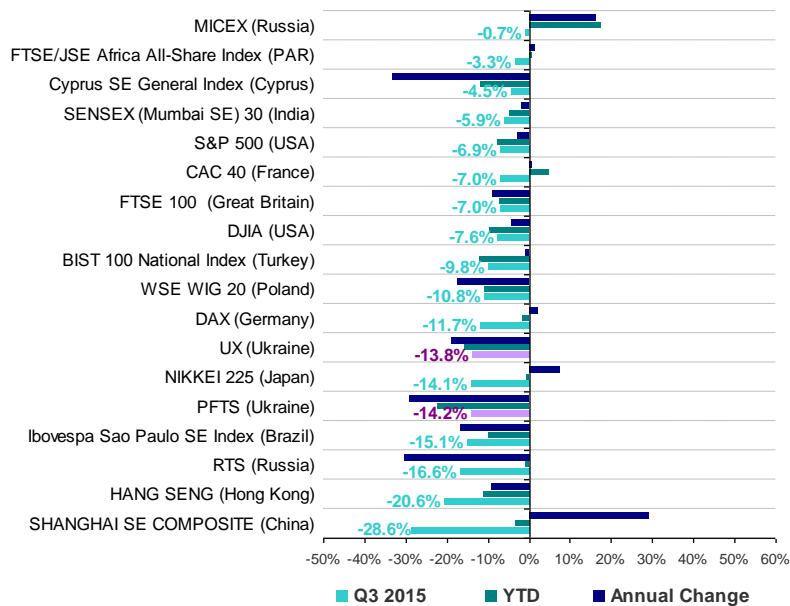


Chart 1. National Markets' Stock Indexes' Dynamics in Q3 2015\*

\* Based on the data of exchanges and Bloomberg Agency

**Ukrainian stock indices** in the 3rd quarter of 2015 demonstrated synchronicity: both Ukrainian Stock Exchange (UX) and PFTS indexes fell by 14%. This mainly resulted from the collapse that started from the middle of September and lasted almost to the end of the month. Finally, the Ukrainian "blue chips" returned to the level of early 2014, and for the year lost 19% (by UX index).

The key equity index of the domestic market continued to move with lateral trend throughout the summer, with relatively minor subsidence in July due to the turbulence in the European markets during the Greek crisis. It lasted until the second decade of September, pending the outcome of negotiations with the Committee of the largest private lenders of Ukraine concerning restructuring of state debt of Ukraine. Negotiations, which ended in late August with an agreement to write off 20% of the debt and change of the dates and other conditions of repayment of the remaining part of the debt, provoked a mixed reaction of markets, and the outcome was a pretext for a formal downgrade of sovereign rating of Ukraine by Fitch Ratings agency from "CC" to "C". At that the expected revision of the ratings after successful restructuring was emphasised. In addition, Ukraine's GDP in the 3rd quarter, increased for the first time during one and a half year - by 0.7% compared to the 2nd quarter, while the annual rate rose from -14.6% to 7% (it was -17.2% in the 1st quarter of 2015). However, Ukrainian equities' index lost 11% (more than 80% of the quarterly indicator) over the last two weeks of the quarter, and that was the most rapid decline since November 2014.

Trading volume continued to fall at an accelerated pace on the market: the total value of transactions in equities on the stock exchanges of Ukraine in July-September decreased compared with April-June 2015 by 39% (after -28%). For the year, it declined by 81% (in the 2nd quarter - by 25%) and amounted to UAH 48,220 mln. Trading volume *in equities* decreased further - by 26% in the 3rd quarter, after -37% and -81% in the 1st and 2nd quarters, and amounted to UAH 1,097 mln. This is 83% less than a year ago. The total value of transactions *in corporate bonds*, on the other hand, increased again - by 18% for the quarter (after +12% and -72% in the 1st and 2nd quarters, respectively), to UAH 3,549 mln. However, the annual dynamics deteriorated - in comparison with the 3rd quarter of 2014 the total value of transactions in these instruments on stock exchanges decreased threefold (-66%, after -62% in the 2nd quarter).

*Ukrainian government bonds* were still the most popular object of trading in the 3rd quarter, but their trading volume fell by almost half - by 48% (after -30% in the 2nd quarter), and for the year - by 84%, to UAH 37,143 mln. The share of OVDP in stock exchanges' trading structure decreased, respectively, from 90.1% to 77.0%. At that agreements in equities amounted to 2.3%, with corporate bonds - 7.4% (after 1.9% and 3.8%, respectively).



## 2. Number of AMC and CII

Tendency of reduction of the number of asset management companies kept in the 3rd quarter of 2015. 7 AMC in Kyiv and its region, 2 in Dnepropetrovsk, one in Donetsk and Odessa were closed during July-September. Instead, two companies were set up in Kyiv. Totally, as of 30.09.2015, **320 AMC** were operating in Ukraine (Chart 2).

As per UAIB data, 13 CII were registered during the quarter (after 5 in Q2 2015). *Total number of registered CII* was not changed during three months (1,556 funds), and since the beginning of the year it decreased by 13 (from 1,569). Thus, against the background of reduction of AMC number, concentration on CII asset management market grew further: as of 30.09.2015, one company managed on average 4.86 funds (after 4.77 in the 2nd quarter and 4.67 at the beginning of the year).

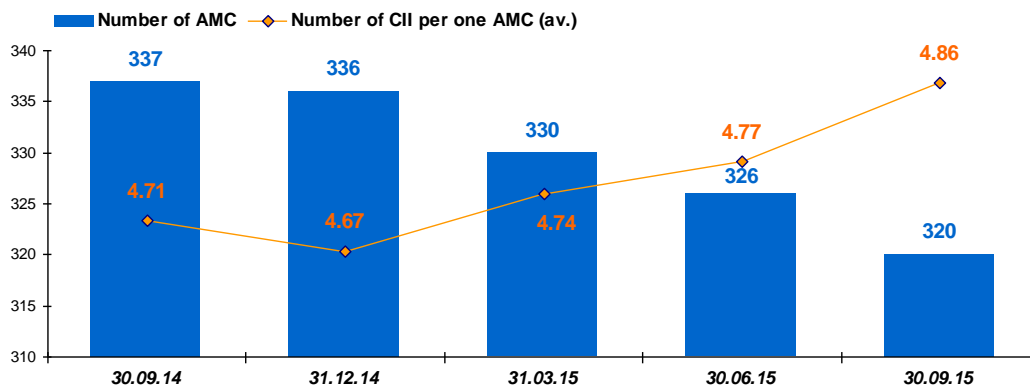


Chart 2. Dynamics of the Number of AMC and CII per One AMC in Q3 2014-2015

The downward trend continued in the dynamics of number of CII that reached compliance with the standard to minimal asset volume: such funds during the quarter became fewer by 20 (after -11 in the 2nd quarter), namely – 1,151. Since the beginning of the year the number of CII fell by 37 funds (-3.1%).

In absolute terms, the number of recognized operating funds decreased the most in the sector of venture UIF (-14, -1.7%), in relative terms – in closed-end non-diversified UIF (-16.2%, -6 funds). Also the sector of interval diversified UIF reduced significantly (-11.5%, -3 funds) (Table. 2).

Table 2. Dynamics of Number of CII that Reached Compliance with the Standards in Q3 2014 - 2015, by the Types and Legal Forms of Funds

Data / Period	Total	UIF*							CIF*		
		O*	Os*	I*	Is*	CD*	CNN*	CV*	I*	CNN*	CV*
30.09.2014	1207	35	-	31	-	11	37	850	2	77	164
31.12.2014	1188	26	4	29	1	10	35	846	2	75	160
31.03.2015	1177	22	5	28	2	10	32	847	2	72	157
30.06.2015	1171	21	5	26	2	8	37	837	2	70	163
30.09.2015	1151	21	5	23	2	9	31	823	2	67	168
Q3 2015 Change	-20	0	0	-3	0	1	-6	-14	0	-3	5
	-1.7%	0.0%	0.0%	-11.5%	0.0%	12.5%	-16.2%	-1.7%	0.0%	-4.3%	3.1%
YTD 2015 Change	-37	-5	1	-6	1	-1	-4	-23	0	-8	8
	-3.1%	-19.2%	25.0%	-20.7%	100.0%	-10.0%	-11.4%	-2.7%	0.0%	-10.7%	5.0%
Annual Change**	-56	-14	-	-8	-	-2	-6	-27	0	-10	4
	-4.6%	-40.0%	-	-25.8%	-	-18.2%	-16.2%	-3.2%	0.0%	-13.0%	2.4%

\* UIF - unit investment funds (CII), CIF - corporate investment funds (CII); O - open-ended diversified CII, Os - open-ended specialized CII (as of and prior to 30.09.2014 - open-ended-diversified CII), I - interval diversified CII, Is - interval specialized CII (as of and prior to 30.09.2014 - interval diversified CII), C - closed-end diversified CII, CNN - closed end non-diversified non-venture CII, CV - closed-end venture CII.

\*\* For open-ended and interval funds - taking into account the specialized ones that previously acted as open-ended and interval diversified ones, respectively.



The share of venture CII in the total number of formed acting funds increased again - from 85.4% to 86.1%, although the number of such CII decreased (from 1,000 to 995 funds). At that the share of venture UIF decreased from 71.5% to 71.3% (823 funds).

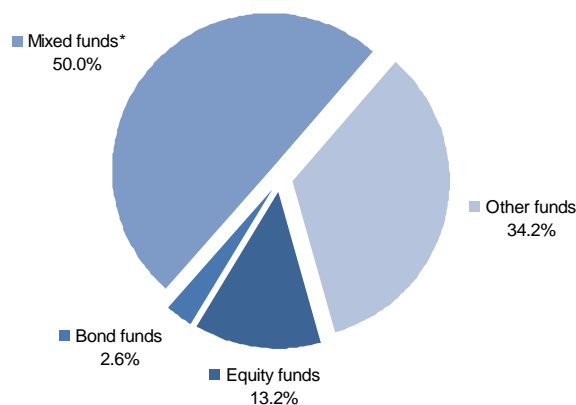
In the 3rd quarter, as per UAIB data, 2 open-ended and 2 interval diversified UIF, 1 closed-end diversified UIF, 5 closed-end non-diversified UIF and 10 of the same CIF, 41 venture UIF and 2 CIF were in the process of liquidation or just started it. Totally - 63 funds, or 5.5% of all recognized CII (virtually without changes for the quarter).

*The number of funds which have not yet reached the normative of minimal volume standard of assets among all registered CII under AMC management in the 3rd quarter of 2015 increased, albeit slightly, - from 44 to 45, for the first time within two years, and their share among all CII in management - from 3.6% to 3.8%. Thus, investors demonstrated certain optimism, and potential for industry's growth increased symbolically.*

*The number of CII with public offering reduced from 40 to 38 in July through September.*

According to the asset structure-based classification<sup>1</sup>, *equity funds* became 2 less - 5. As of 30.09.2015 they included 1 open-ended, 3 interval and 1 closed-end diversified CII. The only *bond fund* has not changed (open-ended CII), the same as the number of *mixed investment (balanced) funds* - 19, including 7 open-ended and 12 interval CII. "Other assets", i. e. those that did not meet the criteria for classes of equity, bond or mixed funds also remained 13. Those were 9 open-ended, 3 interval and one closed-end CII.

As in the 2-nd quarter, at the end of September 2015 (9th quarter in a row) no one from diversified CII met the criteria for money market funds (Chart 3).



\* Funds that hold equities, bonds and moneys in their portfolios.

Chart 3. Diversified Publicly Offered CII, by Fund Classes, as at 30.09.2015

### **3. Regional Distribution of AMC and CII**

In Kyiv and the metropolitan area in the 3rd quarter of 2015 the number of AMC decreased by 5 - to 227 companies. The number of registered market participants in Dnipropetrovsk, Donetsk and Odessa regions was also reduced - to 19, 11 and 8, respectively. In Lviv region, in contrast, another new AMC appeared (totally 9). Thus Lviv was ahead of Odessa by the number of companies. In the rest regions, accordingly to the results of Q3 2015, there were no quantitative changes. Leadership of the capital remained unchallenged, and the majority of AMC were also concentrated invariably on the east, south and west of Ukraine (Chart 4). Kyiv's AMC covered more than 70.9% of the market, however, it was lower than in the 2nd quarter (71.2%) and similar to the indicator of the Q1 2015.

<sup>1</sup> See Rankings "Diversified Public CII – by Asset Classes" and Methodology for Ranking AMC and CII, Based on Their Performance Results on UAIB website: <http://www.uaib.com.ua>





#### 4. Assets and Net Asset Value of CII

In the 3rd quarter of 2015 slowdown in CII assets' growth was changed by significant acceleration: the growth of total assets of investment funds was twice as much as in the previous quarter (after falling by half in the 2nd quarter) and amounted to UAH 7,968.79 mln. (3.7%). This result was achieved due to dynamics of venture funds, which assets' increase was accelerated in three times (+UAH 9,849.64 mln., +4.8%).

**Since the beginning of 2015 CII industry grew by UAH 18,682.88 mln. (+9.1%).**

As of 30.09.2015, the total assets of CII, that reached compliance with the standards, amounted to UAH 225,040.90 mln., including venture CII – UAH 214,703.03 mln.

Reduction of assets of *open-ended CII* in the 3rd quarter accelerated to -UAH 2.75 mln. (-4.4%, after -1.7% in Q2 2015). Reduction of assets in the sector of *interval funds* slowed significantly - up to -UAH 5.13 mln. (-5.3%, after -13.1% in Q2 2015). *Closed-end CII*, with a decrease in the amount of funds which provided reports for the 3rd quarter, for the first time during this year showed a reduction in assets by UAH 1,872.97 mln. (-15.5%, after +5.8% in the 2nd quarter) – up to UAH 10,187.24 mln. (Chart 6). This led to a reduction of the total assets of non-venture CII in July-September by 15.4% (after +5.5% in April-June).

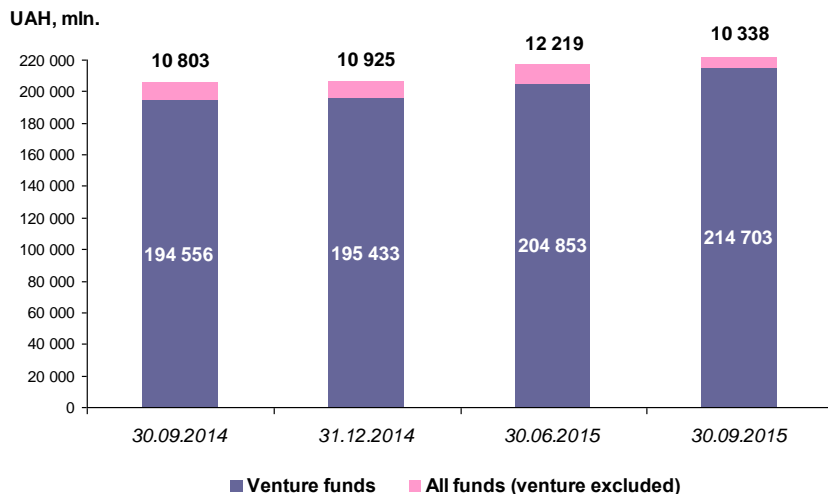


Chart 6. Asset Value Dynamics in Q3 2014-2015

**Net assets of CII** also increased in the 3rd quarter twice rapidly– by UAH 7,285.81 mln. (+3.9%, after +1.8% in the 2015). For 9 month of 2015 growth of NAV constituted UAH 15,646.51 mln. (+8.7%). As of 09.30.2015, NAV of all acting CII amounted to **UAH 196,051.24 mln.** (Table 3).

Table 3. Dynamics of the CII' NAV, by the Types of Funds in Q3 2014-2015, UAH mln.

Funds	30.09.2014	31.12.2014	30.06.2015	30.09.2015	Q3 2015 change	YTD 2015 change	Annual change
Open-ended	72.0	60.2	62.0	59.3	-4.4%	-1.4%	-17.5%
Interval	115.7	107.8	93.8	90.5	-3.5%	-16.0%	-21.8%
Closed-end (venture excluded)	9 438.6	10 198.7	11 007.0	9 339.1	-15.2%	-8.4%	-1.1%
All funds (venture excluded)	9 626.2	10 366.7	11 162.8	9 488.9	-15.0%	-8.5%	-1.4%
Venture funds	170 796.9	170 038.1	177 602.6	186 562.3	5.0%	9.7%	9.2%
<b>All funds</b>	<b>180 423.1</b>	<b>180 404.7</b>	<b>188 765.4</b>	<b>196 051.2</b>	<b>3.9%</b>	<b>8.7%</b>	<b>8.7%</b>

\* Operating CII that reached compliance with standards for minimum value of assets (were deemed to have taken place), are managed by AMC and provided reports for the corresponding period (on the reporting date).

Increase of net assets in *venture funds*, as well as increase of their total assets, in the 3rd quarter exceeded the total indicator of all CII, so this sector offset the decline of NAV in other sectors - for the quarter and since the beginning of 2015, and for the year. Its growth amounted to UAH 8,959.76 mln.





(+5.0%, after +1.8% in the 2nd quarter), and by the end of September 2015 the sector had accumulated UAH 186,562.34 mln.

*Open-ended CII* lost NAV in July-September in the amount of UAH 2.71 mln. (-4.4%, after -1.7% in the 2nd quarter), since the beginning of the year -UAH 0.87 mln., and for the year -UAH 12.63 mln. (-17.6%), that is almost twice less as compared with the indicator at the end of the 2nd quarter (-UAH 23.92 mln.).

The fall on the stock market at the end of the quarter, which replaced the long term lateral trend, brought almost half of the reduction of the net assets' value of open-ended funds - the remaining decrease of the sector's NAV occurred due to a net outflow of capital, which will be discussed below. The number of operating funds, which provided information, did not change in the 3rd quarter.

*Interval CII* at that time slowed decline of net assets to UAH -3.29 mln. (-3.5%, after -12.5% in the 2nd quarter).

For closed-end non-venture funds the slight increase of net assets was changed in the 3rd quarter by a sharp drop: -UAH 1,667.95 mln. (-15.2%), after +UAH 152.24 mln. (+1.4%). At that the number of operating CII in the sector decreased for the quarter by two funds.

Thus, the key role of closed-end CII in the dynamics of non-venture funds in the 3rd quarter of 2015 was negative - the aggregate net assets of CII, except venture ones, fell by UAH 1,673.94 mln. (-15.0%, after +1.3% in the 2nd quarter). Finally, the weight of the closed-end funds decreased for the first time during the year - from 98.6% as of 30.06.2015 to 98.4% as of 30.09.2015 (Chart 7). At that the proportion of interval CII grew to nearly 1%, open-ended CII- up to more than 0.6%.

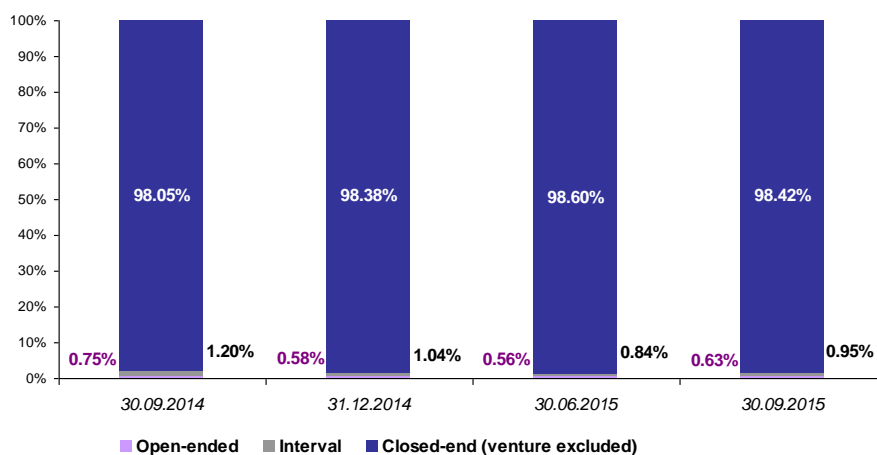


Chart 7. Dynamics of Non-Venture CII NAV Breakdown by the Types of Funds in Q3 2014-2015

Venture funds increased in the 3rd quarter of 2015 their weight in the aggregate NAV of the market from 94.1% to 95.2%, due to a significant acceleration of these CII' net assets' growth, together with a decrease - in other sectors (Chart 8).

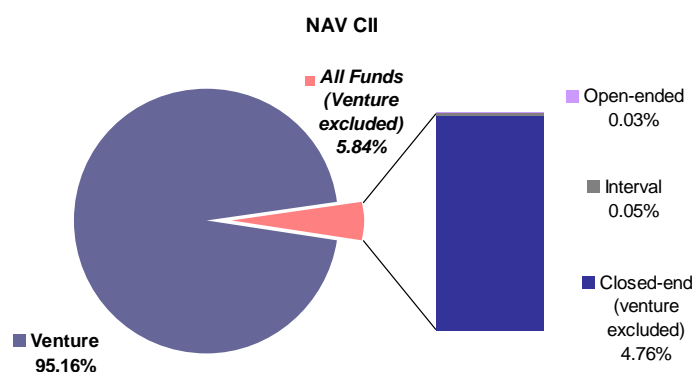


Chart 8. Distribution of CII NAV by the Types of Funds as at 30.09.2015



## 5. Net Capital Flow in Open-Ended CII

The outflow of capital from open-ended CII continued in July-September 2015, but it was moderate. Relatively quiet summer period and unchanged number of funds in the sector contributed to this. During the third quarter, in contrast to the second one, a net outflow was observed each month, but the overall negative index was determined by results of activity of one or several separate funds. The smallest monthly outflow was in August, at that it was formed by results of one fund, which indicator was worse than the overall indicator of the sector (-UAH 0.18 and -UAH 0.25 mln., respectively) (Chart 9, table 4).

The number of CII of this type, that received a net inflow, declined from 7-10 funds each month during the 2nd quarter to 2 in the 3<sup>rd</sup> quarter. Only 4 funds had a net inflow during July-September, the total amount of additionally attracted capital by these CII during three months constituted UAH 0.22 mln. (after UAH 1.16 mln. for the 2nd quarter).

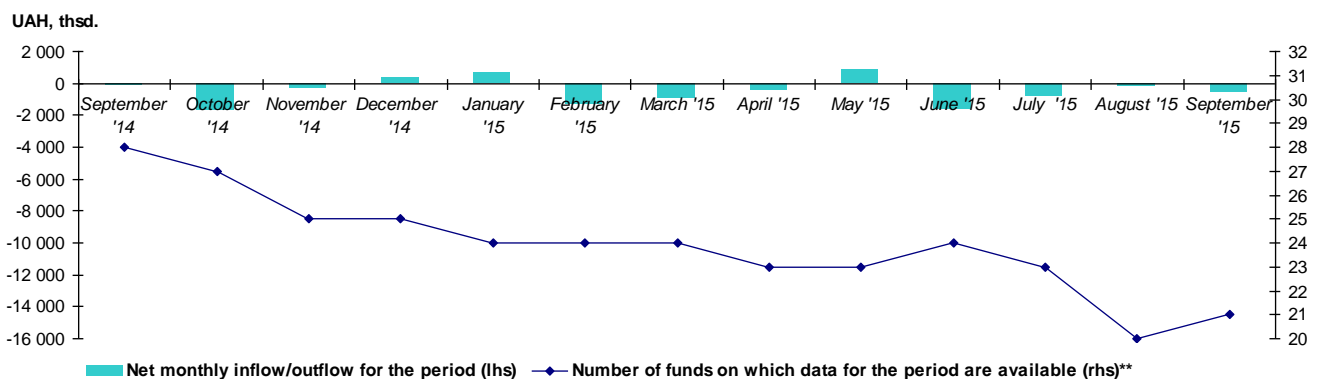


Chart 9. Monthly Net Flow of Capital in Open-Ended CII in September 2014-2015\*

\* Based on daily data (in January-March 2015 – also on data at the end of month (quarter))

Table 4. Monthly Net Flow of Capital in Open-Ended CII in September 2014-2015\*

Month	Net monthly inflow/outflow for the period	Number of funds on which data for the period are available
September '14	-144	28
October '14	-1 753	27
November '14	-322	25
December '14	329	25
January '15	680	24
February '15	-1 271	24
March '15	-978	24
April '15	-413	23
May '15	840	23
June '15	-1 626	24
July '15	-767	23
August '15	-176	20
September '15	-520	21
<b>12 months</b>	<b>-5 977</b>	<b>24</b>

\* Based on daily data (in January-March 2015 – also on data at the end of month (quarter))

\*\* For 12 months - an average.

The total net outflow from open-ended CII in Q3 amounted to -UAH 1.46 mln., ie increased by 22% compared to the 2nd quarter of this year, but was 84% lower than the outflow for the same period of 2014 (Chart 10 ).



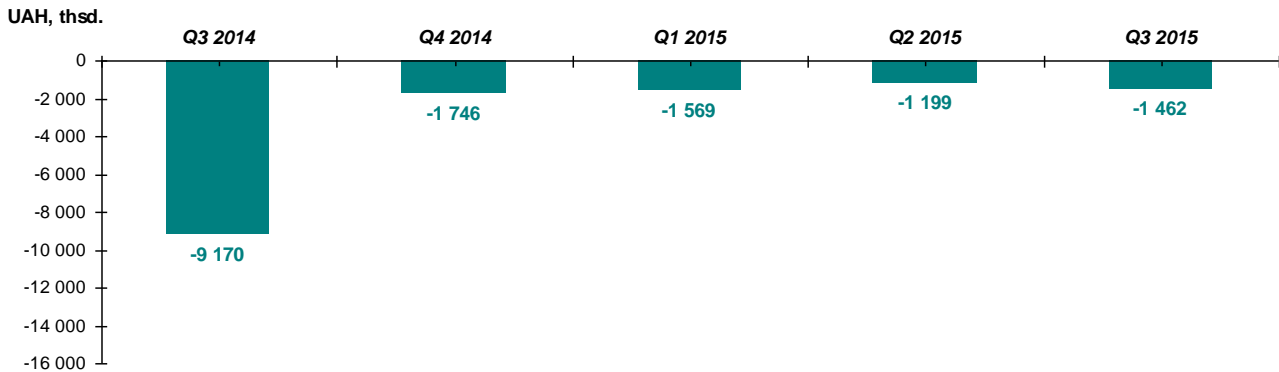


Chart 10. Net Flow of Capital in Open-Ended CII in Q3 2014-2015\*

\* Based on daily data (in January-March 2015 – also on data at the end of month (quarter))

A negative capital flow in open-ended CII lasted the 17th consecutive quarter, during which the aggregate net outflow amounted to UAH 198.09 mln. (without taking into account changes in the value of money over time). **Since the beginning of the year, as of 30.09.2015, UAH 4.23 mln. have been taken out from open-ended CII, and UAH 5.98 mln – over the year (last 12 months).** Thus, the annual outflow in the 3<sup>rd</sup> quarter continued to slow down and at the end of September fell by more than half (-56%) compared with the index at the end of March.

Simultaneously with this slowing of the outflow, its role in the dynamics of NAV of open-ended CII sector in the 3rd quarter weakened dramatically: if in the past three months depositors' net capital outflow was greater than the drop in net assets, then in July-September it caused only 54% of reduction of total NAV of the sector.

**As for the investment funds industry of the European Union, in the 3rd quarter of 2015 the inflow of funds in the UCITS<sup>2</sup> continued, albeit it was weaker compared to the 2nd quarter. During three months these funds managed to attract additionally about EUR 73 bln. of "net" capital<sup>3</sup> (after EUR 103 bln. in the 2nd quarter and EUR 216 bln. in Q1 2015). At that in September net inflow in UCITS fell to EUR 0.8 bln., while in the "alternative investment funds» (AIF - former non-UCITS funds) net outflow was recorded at the amount of EUR 6.3 bln<sup>4</sup>. Quarterly result of AIF - net inflow in the amount of EUR 8 bln. **The overall result of the EU investment funds (UCITS and AIF) in July-September amounted to EUR 81 bln. of additional revenue from investors, and since the beginning of 2015 - EUR 523 bln.** This contributed to an increase in industry's net assets at the end of September 2015 to EUR 12,109 bln., including UCITS funds – EUR 7,815 bln.**

*Mixed (balanced) investment funds* hold leadership by attracting additional capital in the 3rd quarter of 2015 among UCITS funds (+EUR 34 bln.), *money market funds* also had significant revenues (EUR 25 bln.). *Equity funds* were less successful (+EUR 12 bln.), and *bond funds* even experienced outflows (-EUR 9 bln.). "Other" funds of UCITS received net inflow in the amount EUR 9 bln.

<sup>2</sup> UCITS (Undertakings for Collective Investment in Transferable Securities) – collective Investment Institutions in securities which circulate (in regulated markets). They are open-ended (repurchase of securities is done at least once a week), with public offer, diversified and those that have strict requirements for composition, structure and quality of assets.

<sup>3</sup> Based on data of 27 countries, associations of which are EFAMA members (24 countries – EU members, Norway, Switzerland and Turkey) – See.: <http://www.efama.org>.

<sup>4</sup> See [EFAMA Investment Fund Industry Fact Sheet \(September 2015\)](#). Inflow for the 3rd quarter is calculated based on data for July-September 2015.



## 6. Investors of CII

In Q3 2015 Ukrainian institutional investors (legal entities-residents) slightly strengthened their leading position among CII' members, their share in terms of NAV, unlike in the 2nd quarter, increased - from 75.6% to 75.9% - including due to large-scale escalating of amount of their investments (+UAH 5,976.39 mln., after +UAH 1,647.32 mln. in the 2nd quarter and UAH 3,477.83 mln. - in Q1 2015). At that total increase of these participants' investments in all funds in Q3 again was lower than venture CII' growth (+UAH 7,542.46 mln., after +UAH 2,147.39 mln. in the 2nd quarter) - contributions of this category of investors decreased in all other sectors of CII.

Reduction of legal persons-residents' assets in *closed-end non-venture funds* in the 3rd quarter accelerated to -UAH 1,469.17 mln. (after -UAH 497.10 mln. in the 2nd quarter), that took place against a background of reduction of the number of closed-end CII. Assets of these investors decreased again also in interval funds (UAH 6.90 mln.), and in open-ended CII their volume practically was not changed.

Assets of domestic corporate investors *in venture CII* this quarter grew much more than assets of other categories of investors, that's why their weight in the sector increased from 76.8% to 77.2%. *In open-ended CII* their share - due to reduction of other investors' contributions, in particular of legal persons-residents - increased from approximately 12.1% to over 12.6%. *In interval CII*, due to significant reduction of these investors' contributions and increased contributions of foreign enterprises, their weight fell from 57.2% to 51.7%. *In closed-end funds* the share of this category declined also - from 56.6% to 51.0%. (Chart 11)<sup>5</sup>.

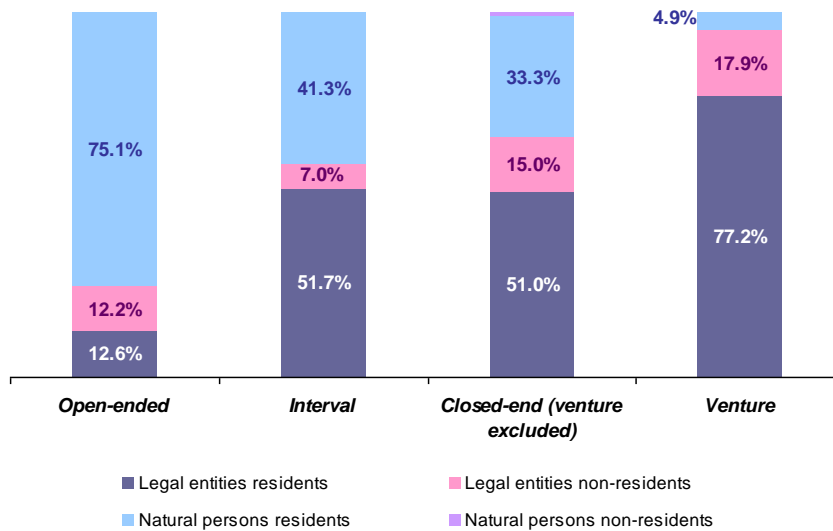


Chart 11. CII NAV Breakdown by the Categories of Investors as at 30.09.2015, Share in NAV

**Ukrainian retail investors (natural persons-residents)** in the 3rd quarter continued to increase their investments in CII. However, this applied generally only to venture CII, while decline was observed in other CII sectors: the amount of these participants' assets in venture funds rose by UAH 543.25 mln., while in all CII as a whole - by UAH 374.42 mln. (after +UAH 460.08 mln. in the 2nd quarter). Despite this, more active dynamics of investments' increasing in CII by other categories of investors led to a slight decrease of the Ukrainian citizens' weight in NAV of all funds as a whole - from 6.31% to 6.28%. At the same time, increase of citizens' assets in venture CII was relatively more quick, that's why their share in this sector continued to expand further, gradually but steadily - from 4.80% to 4.87%.

*In open-ended CII* assets of Ukrainian citizens decreased much more than in the previous quarter - by UAH 2.42 mln. (after -UAH 0.64 mln.), so these investors played a key role in capital outflows from

<sup>5</sup> Excluding CII bearer securities in circulation.



open-ended CII in the third quarter. At last, their share of NAV in this sector of CII decreased slightly - from 75.7% to 75.1%.

Capital inflows **from foreign investors** to CII lasted the 4th quarter in a row: this time non-residents' assets increased by UAH 706.61 mln. (after +UAH 1,227.39 mln. in the 2nd quarter and +UAH 832.41 mln. in Q1 2015). At that assets of *legal entities-non-residents* increased by UAH 701.06 mln., including in venture funds - by UAH 740.28 mln. In other closed-end CII presence of these investors decreased slightly, and in the interval ones - increased.

Contributions of *foreign citizens* continued to grow rapidly, albeit at a slower pace, and their total value remained low. Nevertheless, *the share of all non-residents* in NAV of CII as a whole decreased during this quarter - from 18.1% to 17.8%, and in venture funds - from 18.43% to 17.95%.

All investors-residents, as of 30.09.2015, held in CII in total UAH 159,546 mln., including UAH 151 535 mln. in venture CII; non-residents - UAH 34,639 mln., including UAH 33,162 in venture CII.

**Number of investors in CII** in the 3rd quarter of 2015 decreased in all CII' sectors, other than venture, where it grew considerably - and this limited the reduction of all funds as a whole. Thus participants in venture CII became more than in the 2nd quarter by 1.9% (+104, after -317, -5.4% in the 2nd quarter), while in all CII as a whole less by 0.04% (- 103, after -535 339, -67%). Domestic corporate investors were drivers of the growth +95.

The sector of *closed-end CII* contributed the most to the reduction in the number of CII investors during these three months (-102, including -72 - citizens of Ukraine, totally -2.0%). Also the number of participants was reduced significantly *in open-ended CII* - in relative terms (-0.6%, -18) and in interval CII - in absolute terms (-87, -0.03%), at that in both cases they were retail investors-residents.

Table 5. Investors of CII by Categories as at 30.09.2015, Number and Share of the Total Number

Funds	Legal entities				Natural persons			
	residents		non-residents		residents		non-residents	
Open-ended	24	0.87%	5	0.18%	2 742	98.88%	2	0.07%
Interval	44	0.02%	2	0.00%	250 267	99.97%	20	0.01%
Closed-end (venture excluded)	479	9.59%	29	0.58%	4 475	89.63%	10	0.20%
<b>All funds (venture excluded)</b>	<b>547</b>	<b>0.21%</b>	<b>36</b>	<b>0.01%</b>	<b>257 484</b>	<b>99.76%</b>	<b>32</b>	<b>0.01%</b>
Venture	4 710	82.72%	538	9.45%	437	7.67%	9	0.16%
<b>All funds</b>	<b>5 257</b>	<b>1.99%</b>	<b>574</b>	<b>0.22%</b>	<b>257 921</b>	<b>97.77%</b>	<b>41</b>	<b>0.02%</b>

## 7. Asset Structure of CII

The following changes **in terms of financial instruments and other assets** took place in composition and structure of aggregated portfolios of CII in Q3 2015: further reduction of share of assets in **securities as a whole**, and *in equities*, in particular, – this time in all sectors of CII by type of funds; reduction of the *corporate bonds' share* - in the sectors of open-ended and venture CII; further increase of OVDP weight in open-ended and interval CII (Table 6).

**In open-ended** funds the share of *moneys*, against a net outflow from the sector in July-September, rose and became close to the March level - up to 22.6%, at that the absolute amount of liquid assets in the sector also grew, though slightly (+UAH 0.83 mln.) up to UAH 13.44 mln. Weight of *equities*, which lost positions, but remained the largest asset in the consolidated portfolio of the sector, dropped to 38.5%, and total amount of assets – by UAH 2.80 mln. (up to UAH 22.91 mln.). It corresponded to the drop of stock market indices at the end of the quarter, and was the largest decline among the types of assets in open-ended CII. The total investments of these funds *in OVDP* also decreased (-UAH 0.50 mln.), but their weight in the aggregated assets of the sector rose to 22.3%. "Other" assets remained here virtually unchanged (UAH 7.19 mln.), and their share, in conditions of reduction of assets' amount in securities, increased to 12.1%. Assets of open-ended CII *in corporate bonds* decreased by UAH 0.20 mln. - up to UAH 1.44 mln. (2.4%).



Table 6. Changes in the Structure of Aggregate Portfolios of CII by the Types of Funds in Q3 2015

Asset Type / CII Type/ Change for Quarter	Open-ended		Interval		Closed-end (ex. venture)		All funds (ex. venture)		Venture funds	
	p.p.	%	p.p.	%	p.p.	%	p.p.	%	p.p.	%
<b>Other assets</b>	0.45	3.9%	5.29	43.5%	15.89	36.5%	15.66	36.3%	1.40	1.9%
Real estate	-	-	-	-	0.06	17.1%	0.06	17.0%	-0.06	-2.1%
<b>Moneys and bank deposits</b>	2.32	11.5%	-3.32	-27.4%	2.18	20.4%	2.14	19.9%	-0.022	-1.7%
Bank Metals	0.05	2.5%	-1.20	-100.0%	0.00	-0.8%	-0.01	-28.2%	0.00	-34.0%
<b>OVDP</b>	0.18	0.8%	1.32	87.6%	-0.24	-21.8%	-0.21	-17.3%	-0.02	-32.7%
Municipal bonds	-	-	-	-	-	-	-	-	-	-
<b>Equities</b>	-2.79	-6.8%	-2.30	-3.3%	-19.19	-49.2%	-18.92	-48.2%	-2.09	-17.3%
<b>Corporate bonds</b>	-0.21	-8.0%	0.23	7.2%	0.91	33.0%	0.90	32.5%	-0.13	-3.2%
<b>Promissory notes</b>	-	-	-	-	0.39	15.1%	0.38	15.0%	0.95	12.9%
Mortgage	-	-	-	-	-	-	-	-	0.003	49.2%
Other securities	-	-	-0.02	-8.3%	-	-	0.0000	1.94%	-0.02	-59.5%
<b>Securities</b>	-0.03	-4.3%	-0.01	-1.0%	-0.18	-39.9%	-0.18	-39.0%	-0.01	-5.5%

In interval CII proportion of equities reduced to 67.4%, and the amount of assets in them – by UAH 5.67 mln., up to UAH 61.37 mln. Also moneys decreased significantly - by UAH 3.64 mln., and their share - up to 8.8%. Bank metals came out of these CII' assets (-UAH 1.16 mln.). Instead, "other" assets of the sector increased – by UAH 4.20 mln., up to 17.5%.

In closed-end non-venture funds assets in equities in Q3 2015 again fell sharply, although almost two times less than in the 2nd quarter – by UAH 2,656.91 mln., to UAH 2,015.80 mln., and their share - to 19.8%. Investments in government bonds and promissory notes also became less. In contrast, sector's assets in corporate bonds increased (+UAH 43.17 mln.) - up to UAH 374.39 mln., 3.7% in the aggregated portfolio of closed-end CII. Amount of assets in moneys increased also (+UAH 29.43 mln.), to UAH 1,312.27 mln., and their share - to 12.9%. But mostly closed-end funds increased the "other" assets (+UAH 835.76 mln., after +UAH 490.73 mln. in the 2nd quarter), so at the end of September 2015, their weight increased significantly and they made up more than half of sector's assets (59.4%).

Overall, as of 30.09.2015, securities dominated, the same as before, in assets' structure of open-ended and interval CII (63.2% and 73.8%), and in closed-end ones they lost the lead (27.3%) (Chart 12).

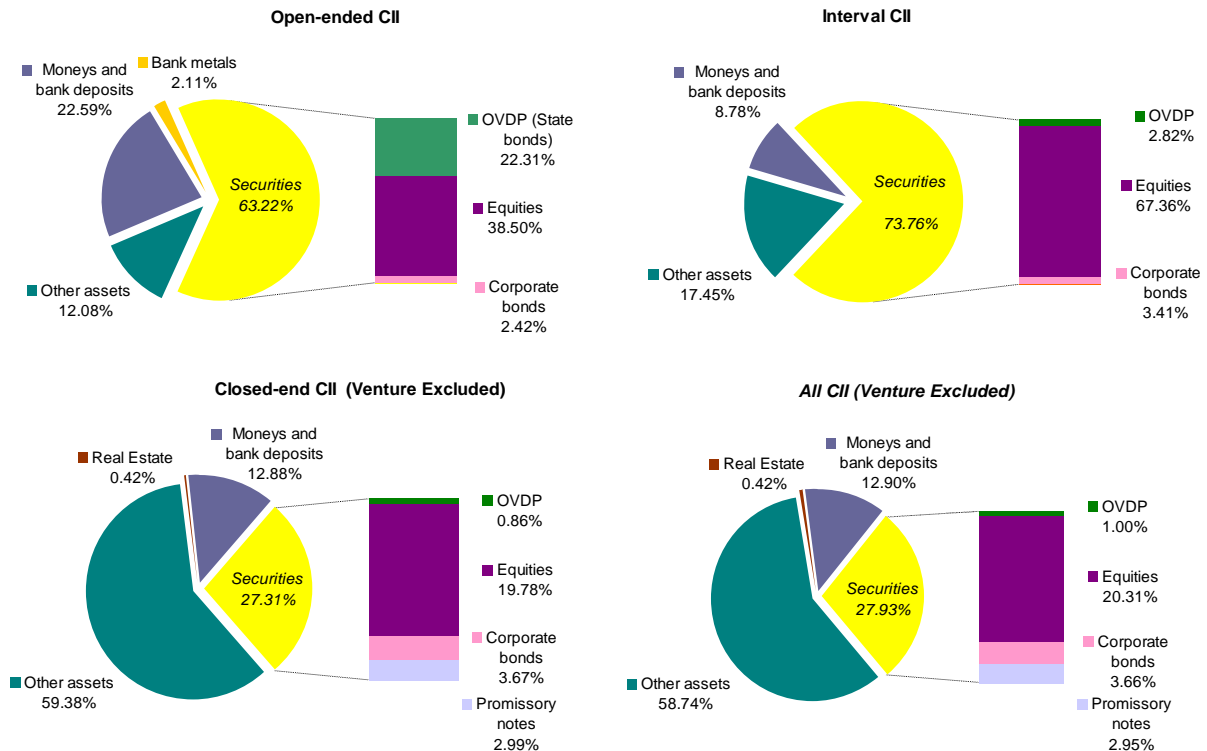


Chart 12. CII Assets Structure, Venture Funds Excluded, by the Types of Funds as at 30.09.2015



At the same time "Other" assets further expanded their presence *in venture funds* - almost 73.5%, while proportion of *equities* reduced to about 10%, of corporate bonds - to 4.1%, and of promissory notes - rose to 8.3% (Chart 13).

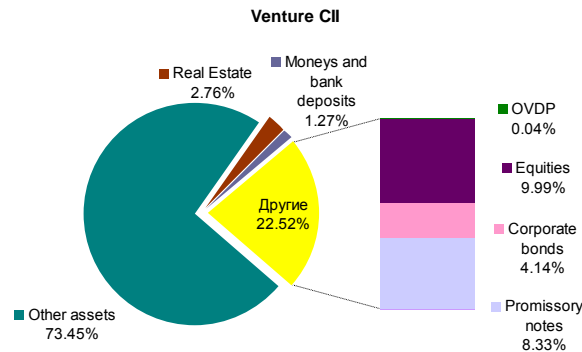


Chart 13. Assets' Structure of Venture CII, as at 30.09.2015

**Securities' portfolio of all CII** in the 3rd quarter decreased by UAH 3,191.99 mln. (after -UAH 3,304.76 mln. in the 2<sup>nd</sup> quarter) and, as of 30.09.2015, its value was **UAH 51,172.83 mln.**

In consolidated portfolio of all CII in the 3rd quarter of 2015 *equities* remained **the largest ones by an aggregate value of investments among classes of securities**, despite the fact that the value of these assets in general decreased dramatically (and more than twice faster than in the 2nd quarter) – by UAH 5,991.96 mln. This time contributions of venture and other CII was almost identical: equities became less in the assets of the first ones in the 3rd quarter by UAH 3,326.58 mln. As at the end of September, assets of all CII in equities amounted to UAH 23,514.38 mln., and they were already less than half of the consolidated securities portfolio - nearly 46% (at the end of June - 54.3%, at the 2014 end - 58.2%) (Table 7).

*Promissory notes and corporate bonds* still remained among the largest components of portfolios of all CII (35.5% and 18.1%, respectively), at that their total value in Q3 2015 increased. OVDP and mortgages also retained their positions, but together with derivatives they accounted for less than 1% in the aggregated portfolio of financial instruments.

Table 7. Securities Portfolio of CII, by the Types of Instruments, as at 30.09.2015

Security Type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate portfolio of CII securities
Equities	23 514 385 655	45.95%
Promissory notes	18 159 787 443	35.49%
Corporate bonds	9 262 403 422	18.10%
State bonds (OVDP)	184 796 416	0.36%
Mortgage	20 226 614	0.04%
Derivatives	31 234 637	0.06%
<b>Total</b>	<b>51 172 834 186</b>	<b>100.00%</b>

**Consolidated securities portfolio of open-ended, interval and closed-end non-venture CII** in the 3<sup>rd</sup> quarter also decreased sharply - by UAH 2,672.75 mln. – **to UAH 2,887.67 mln.** This was, mainly, the result of reduction of closed-end funds' assets in equities (totally, non-venture CII reduced their assets in equities by UAH 2,665.38 mln.), the share of which at the end of the quarter dropped to 72.7% of the securities portfolio (table 8). Total holdings of these funds increased only in corporate bonds (+UAH 43.02 mln.), that helped to increase more than double their weight in the aggregated portfolio of non-venture CII - to 13.1%.

Table 8. Securities Portfolio of CII (Venture Excluded), by the Types of Instruments, as at 30.09.2015

Security Type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate portfolio of CII securities
Equities	2 100 086 027	72.73%
Corporate bonds	378 933 268	13.12%
Promissory notes	304 909 039	10.56%
State bonds (OVDP)	103 745 010	3.59%
<b>Total</b>	<b>2 887 673 344</b>	<b>100.00%</b>



In the aggregated securities portfolio of **diversified CII** amount of assets *in equities* during the 3rd quarter decreased by 40% (-UAH 344.78 mln., after –UAH 14.28 mln. in the 2nd quarter) and as of 30.09.2015 amounted to UAH 518.75 mln. Though the weight of these instruments here dropped, but their priority remained unconditional - almost 79%. The total value of financial instruments in the portfolio of these funds decreased in the 3rd quarter by 34% (-UAH 343.84 mln., after –UAH 14.09 mln. in the 2nd quarter) - up to **UAH 656.93 mln. of the portfolio** (Table 9).

*Assets in OVDP* increased here, the same as in the 2nd and the 1st quarter, (+UAH 1.07 mln.) - up to UAH 16.25 mln., or 2.5% of the consolidated portfolio of securities.

Only the total value of *corporate bonds* in these CII reduced insignificantly, and their share in the stock portfolio of diversified assets also almost did not had not change (0.8%).

Table 9. Securities Portfolio of Diversified CII by Types of Instruments, as at 30.09.2015

Security Type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate portfolio of CII securities
Equities	518 746 932 <sup>1</sup>	78.96%
Promissory notes	116 682 487 <sup>1</sup>	17.76%
State bonds (OVDP)	16 250 207 <sup>1</sup>	2.47%
Corporate bonds	5 253 349 <sup>1</sup>	0.80%
<b>Total</b>	<b>656 932 975<sup>1</sup></b>	<b>100.00%</b>

## 8. Rates of Return of CII and other Investment Instruments

Drop of the Ukrainian stock market indices in the 3rd quarter of 2015 pulled behind also rate of return of CII. But long-term decrease of equities' proportion in funds' portfolios, which was accelerated by this failure, helped to limit losses from adverse market dynamics, and a number of funds managed to increase the value of their securities again and could compete with other areas of investments (Chart 14).

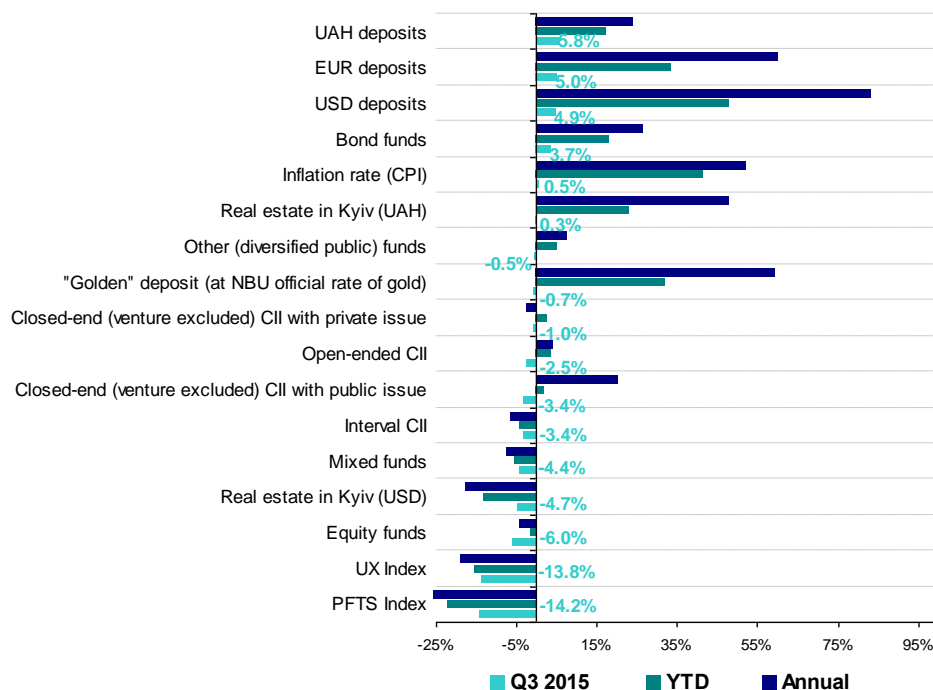


Chart 14. Rates of return of CII, deposits, equity indexes and inflation rates in Q3 2015<sup>6</sup>

<sup>6</sup> CII rates of return are calculated based on the reporting data for Q3 2015 for 24 –open-ended, 21- interval, 89 - closed-end CII (including 44 with public placement and 41 with private placement, without taking into account 2 funds of each kind of issue with the extreme values that have significant deviation) and on reporting data for the previous periods – see Rankings: [CII by the Types of Funds and CII \(public, diversified\) by Classes of Funds](#). The provided inflation rate is based on the State Statistics Service data (consumer price indexes - 2015 (before the previous month)). Return on real estate in USA dollars is calculated as an average of data on property values based on the data of Kyiv real estate values from web portals: <http://www.domik.net>, <http://100realty.ua>, <http://realt.ua>; in Hryvnia – based on data from web portal <http://100realty.ua>.





The share of equities in consolidated portfolios of different sectors of CII, which at the beginning of the 3rd quarter was from 20% in closed-end and 39% in open-ended to 67% in interval CII, respectively, limited impact of these assets' dynamics on funds' rates of return (also taking into account a broader set of securities in CII portfolios compared, in particular, with the UX index "basket", where half of issuers were located in the zone of "ATO" in the east of Ukraine).

**Closed-end (non-venture) CII with a private issue** were again the leaders by the rates of return **among non-venture CII by types of assets** in Q3 2015 - they lost on average the least (-1.0%, after +1.5% in the 2-nd quarter). *The average index since the beginning of the year was positive in the sector and amounted to +2.8%.*

Range of quarterly rates of returns of individual funds significantly narrowed compared with the previous quarter in several times - from -44.8% to +24.8%. Number of funds which increased the assets of their depositors in this sector rose to 12 out from 41 (after 11 out of 44). The result above UX index was demonstrated by 39 closed-end funds with private issue (after 30 in Q2 2015). Also 9 of the same CII at least offset losses from inflation (0.47%) and were more profitable than real estate (+0.27% in hryvnia's prices), 3 – than all three major types of deposits.

Moderate drop of hryvnia's rate to foreign currencies in July-September led to the fact that deposits in foreign currency demonstrated close to hryvnia's results for this period (+5.8%) - from +4.8% for deposits in dollars to 5.0% - in euros.

**Closed-end (non-venture) CII with public issue** brought an average of -3.4% (after +0.7% in the 2<sup>nd</sup> quarter). *The average yield of the year in the sector amounted to +1.9%.*

*The range of rates of return of these funds, for which calculations were made, narrowed twice in the 3rd quarter and was from -36.1% to +19.5%. 14 out of 44 of such CII had positive figures. 37 funds outperformed the UX index, 13 - were more profitable than real estate (in hryvnia), 12 - covered inflation, 3 – were ahead deposits in US dollars, 2 – ahead deposits in national currency and in euros.*

**Open-ended CII** in Q3 had the negative average of rates of return again - -2.5% (after -0.3% in the 2<sup>nd</sup> quarter). *The average index since the beginning of the year in the sector was positive and amounted to +3.7%.*

*The range of rates of return of different funds in the sector in July-September extended slightly and dropped: from -15.7% to +5.3%, at that 9 out of 24 funds ensured growth of the investment's value, overpassed inflation and were more profitable than real estate (in hryvnia). All funds, except one, had better results than UX index, and one fund exceeded indices of deposits in two foreign currencies.*

**Interval CII** at that time showed an average of -3.4% (after -3.3% in Q2 2015), and separate funds in the sector had from -12.0% to +3.2%. *The average index since the beginning of the year in the sector was also negative and amounted to -4.3%.*

4 out of 21 funds of this type provided the rising cost of investments, all of these funds were ahead the UX index, 3 - offset losses from inflation and exceeded the yield of real estate (in hryvnia).

**Among diversified CII with public issue by classes of assets** (according to the structure of their assets in Q3 2015)<sup>7</sup> leaders changed again, that was natural in the conditions of equity indices' fall. So, the bond fund of open-ended type was the most profitable (single and unchanged the second consecutive quarter) - +3.7% (after +0.2% in the 2<sup>nd</sup> quarter). This sector was the leader among CII and by the rates of return was behind only of deposits.

**Mixed (balanced) funds** in Q3 showed an average of -4.4% (after -2.3% - in the 2nd quarter) – from -12.0% to +1.9%, according to data of 19 of such CII (7 of open-ended and 12 of interval type).

**Equity funds** (1 open-ended, 1 closed-end and 3 interval CII) in July-September 2015 *suffered an average losses at amount of -6.0%* (after +0.9% in the second quarter). However, this figure was better more than twice than the UX index. Separate results in this class of funds were from -19.6% to +0.9%.

<sup>7</sup> See [Methodology of Ranking AMC and CII \(Unit and Corporate Investment Funds\) based on Their Performance Results.](#)



"Other" diversified public funds (1 open-ended, 3 interval and 9 closed-end CII) at this time were more successful - the average drop reduced by half, to -0.5%, performance of individual funds increased slightly - from -4.3% to +3.9% (6 out of 13 funds brought growth).

Bond funds were the most successful by the rates of return among CII by classes of assets since the beginning of 2015 (+18.0%). "Other" diversified public funds also provided positive average increase of investments' value (+5.1%), while equity funds showed -1.5% for 9 months, and mixed investment funds – -5.3%.

## **9. Resume**

In July-September 2015 industry of collective investment institutions as a whole continued to grow, at that at double accelerated pace compared with the previous three months.

The key trends in the Ukrainian industry of collective investments in the 3rd quarter of 2015 are as following:

- the same as in the previous quarter – further reduction of the number of AMC and funds under management and reduction of the number of investors in the market - together with their increase in venture CII and more active upbuilding of volumes of investments in these funds by different categories of investors;
- growth of assets and NAV exclusively due to venture CII;
- reducing of volume and share of assets in securities (in particular, in equities) in all sectors of CII;
- slight increasing of capital's outflow from open-ended CII and sharp weakening of its role in the dynamics of the sector's net assets;
- compared to equity indices' drop - a slight decrease of profitability in all sectors of CII by types and classes of assets, except bond ones and "other" funds (diversified, with public issue);
- continued presence of funds, which ensured investment gains for the quarter for their members, in all sectors of CII.

Complicated market conditions, including falling stock indices during this period, and lack of conditions and incentives for both quantitative growth as well as qualitative development of the industry against the backdrop of a wave of legislative and regulatory innovations and initiatives were those factors which kept the downward trend of majority sectors of CII and inhibited their growth.

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- Analytical Reviews and Statistics of Publicly Offered Investment Funds:
  - [Weekly Statistics](#)
  - [Monthly Reviews](#)
- [Quarterly & Annual CII Industry Reviews](#)
- [Quarterly Statistics of Pension Funds \(NPF\) Under Management](#)
- Rankings:
  - [AMC Rankings](#)
  - [CII Rankings \(by fund types and by fund classes\)](#)