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1. Stock Markets: Ukraine and the World

2013 began very successfully for the developed markets, at that the positive mood of investors stuck to and during Q1 – key world stock indexes flew up to their 4-5-years' highs. Optimistic macro statistics in the USA, better than expected corporate profits, achievements of «budgetary compromise» and confidence in intention of FRS to continue financial inflows in the economy of country contributed to it. On East, getting up, except for these factors, was strengthened by similar to American measures of soft monetary policy of Japan Bank and government of the country for overcoming of deflation and creation of push for the economy growth. On European exchanges equities grew most dynamically from the beginning of the year in Great Britain - except for news from other key markets, here an ascending trend was set by unexpected activation of production.

Closer to the middle of the year volatility on the global stock markets grew sharply in the conditions of exhausting of positive factors' effect, fears in relation to folding the FRS program of «quantitative softening» (QE) and flash of political instability in Turkey and the Middle East. International investors still had the excess liquidity, that supported an uptrend. However, Western European markets remained under constraints of negative factors, in particular, weak dynamics of euro zone's GDP with negative performance in a number of countries, as well as slowing growth in China. Most equity markets in the world sank in June.

Stock markets demonstrated the rapid growth again in July, due to increased investors' confidence, expected continued infusion of cheap liquidity by the Fed, and also because of production's growth in Germany and China. In the second half of 2013 equities in leading world markets updated for at least 5 years' records.

However, in the second half of Q3 - early Q4 and at the beginning of December, there was predominantly downward movement. Especially it was affected by reduction of the IMF forecast for world's economy growth in 2013-14, and the FED'S decision about start of cutting the QE program, that caused the outflow of capital from emerging markets. For 2013, leading stock indexes had from + 13.6% in the UK to + 56.7% in Japan (Chart 1).

The Chinese market during the year was moving mostly downward in conditions of lowering the forecasts for country's economy growth by the leading global organizations. It failed in June in unison with the developed markets, and then moderately increased over several months. The failure took place at the end of the year, when, in addition to American news, the liquidity crisis was aggravated by the internal problems of expensive credit, despite the efforts of the Central Bank of China. All of this eventually did not allow the Chinese market to revive even to the level of the beginning of the year and it finally showed -6.1%, while Hong Kong index was + 2.6%.

Polish equities also had a bad year. Local key indicator was among the world outsiders' ones already in Q1, and in June fell to lows for the year, the same as foreign counterparts. A lingering decline of Polish leading index started in November, during the surge of political tension in Ukraine, and lasted until the end of the year. Finally, it lost more than 7% over 2013.

Russian indicators demonstrated a similar trend: subsidence started already at the end of Q1 amid lowering prices for energy and the outflow of capital from developing countries, further there was a failure at the end of May-June synchronous with the world markets. However, it was changed by the same rapid growth til the



middle of July. Since October, the market kept the lateral trend until the end of the year, which brought in total from 5.5% to + 2.0%.

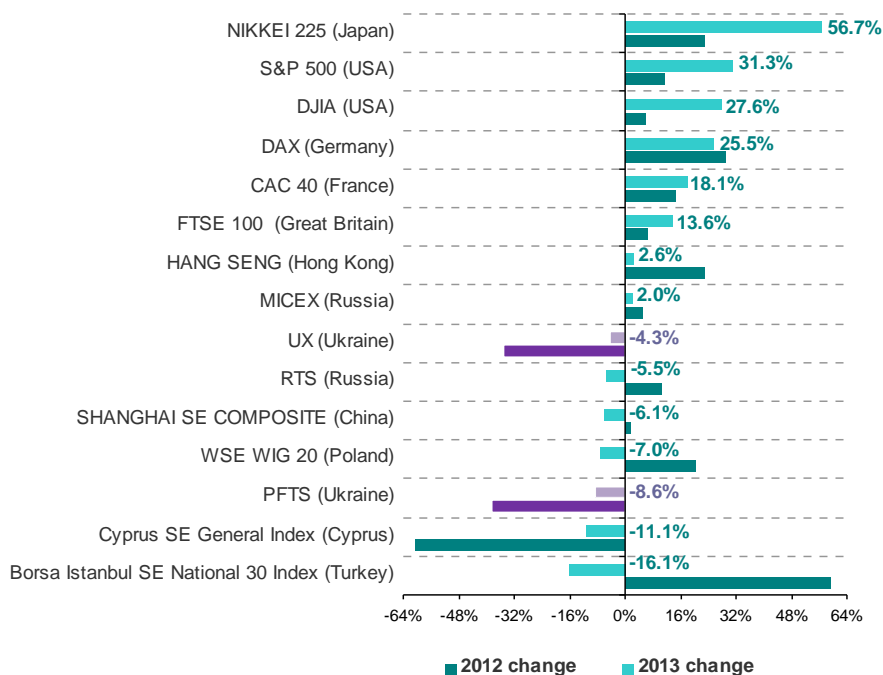


Chart 1. National markets' stock indexes' dynamics in 2012-2013*

*Based on the data of exchanges and Bloomberg Agency

Year 2013 brought many innovations in the legislation for the securities' market in Ukraine, as well as tests of economic and socio-political nature – both internal and external.

The activity of securities' trading on the major stock exchanges in 2013 increased, that was due to the introduction of a special tax on transactions with stock assets and stimulated to transfer part of such operations from the out-of-exchange market into the exchange one. Thus, the share of exchange trading in the total value of the contracts performed by the stock market of Ukraine in 2013 increased from 12.6% to 39.2%. According to SSMNC data, the aggregate trading volume on an organized market increased by 80% over the year and amounted UAH 474.63 bln. At that, more than 91% of it accounted for two exchanges – SE "Perspectyva" (over 67%) and PFTS (almost 24%), and 74% of transactions were made in OVDP, and another 10%- in corporate bonds and equities.

The number of equities' issues declined for the first time for at least 4 years (from 1731 to 1671), and along with it – the number of securities that are at the 1-st level of listing (from 14 to 1), and also of out-of-listing ones. Trading volume in equities fell over the year more than three times (by 71%) to UAH 171.51 bln., among them UAH 45.32 bln. – approximately a quarter – were conducted on stock exchanges. It is, however, more than 2 times exceeded the indicator of 2012 (UAH 21.54 bln.).

So, in 2013, over 3/4 of the trading volume on the stock exchanges of Ukraine were carried out with government bonds, though their popularity among investors at the end of the year diminished amid a sharp increase in political and macroeconomic risks in Ukraine.

In these circumstances, domestic equity indexes had in general dynamics different from the most global analogues and hardly reflect the significant political and economic processes in the country. Considerable volatility in Q1 ended in a failure of UX index by 5% against the background of the Cyprus banking crisis. Next, the index fell by 10 percent in early April and by more than 7% in the second half of August - beginning of September, so even moderate growth during April-December did not allow the Ukrainian "blue chips" to restore annual losses before the beginning of the new year.

All by all, UX index lost 4.3% over 2013, the PFTS Index – 8.6%.



2. CII Market Performance

Europe

Optimistic macroeconomic shifts and expected stimulating steps of EU financial markets' regulators in 2013, along with more-or-less positive dynamics of stock indices, contributed to the further active growth of **European public open-ended funds market (UCITS)¹**. The outflow from certain classes of assets or funds was compensated by inflows in other ones, that allowed investors to not only save the contributions, but also to increase them further.

Balanced funds were the leaders by the annual net capital inflows in 2013 – they attracted additionally from investors EUR 114 bln., while *equity funds* received EUR 99 bln. of net inflow. *Bond funds* since the beginning of 2013 received net revenues of EUR 70 bln. *Money market funds* were the outsiders during the year, the outflow from which contributed to the growth of assets in other classes of UCITS. These funds with the most liquid assets lost EUR 84 bln. (after - EUR 37 bln. in 2012).

Totally, the UCITS funds received EUR 229 bln. over the year (after EUR 196 bln. in 2012)².

Ukraine

2.1. Number and Regional Distribution of CII Market Participants

The dynamics of the number of asset management companies in 2013 weakened - in conditions of tax innovations, prolonged stagnation of the stock market and the economy as a whole, part of AMC went out of business. At the same time the process of entering the asset management market by new companies continued. In Q3 their number even exceeded, so, as of 31.12. 2013, according to UAIB, there were 347 AMC acting in Ukraine (-6 in 2013, after +12 in 2012).

The number of registered collective investment institutions increased in 2013 from 1544 to 1604, i.e. slowed by 1.5 times (+60 against +93 in 2012). However, due to the reduction in the number of AMC, it increased the concentration of CII assets' management even more than in 2012 (Chart 2).

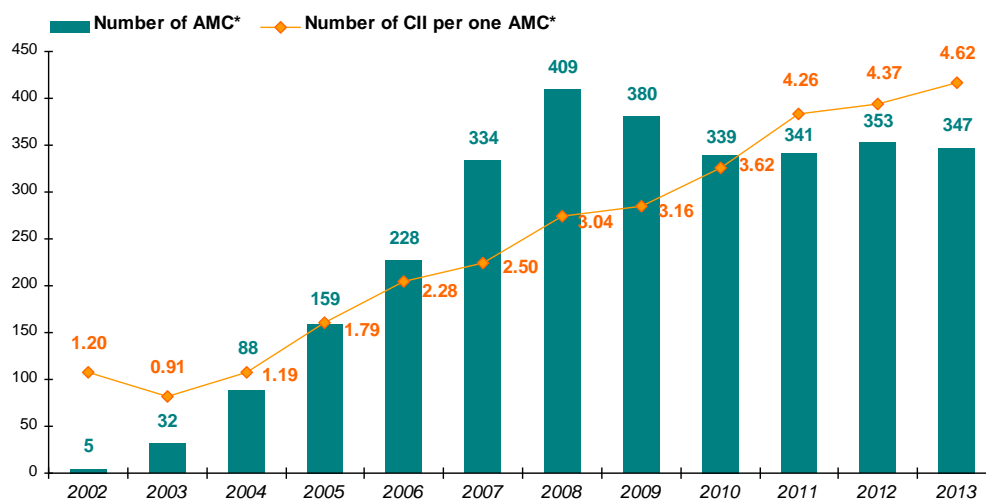


Chart 2. Dynamics of the number of AMC and CII per one AMC in 2002-2013

The number of CII that reached compliance with minimal asset volume standard grew by 2.3% from 1222 to 1250 (after + 8.6 in 2012) (Table 1). Only venture funds, which became more by 6% (after 12% in

¹ The UCITS - Undertakings for Collective Investment in Transferable Securities) - collective investment institutions into securities, which circulate (on regulated markets).

² See EFAMA's Quarterly Statistical Release (Q4 2013 & Full Year 2013).



2012), were the exceptional engine of growth this year. The increase in corporate venture CII (+26 funds), as well as in unit ones (+32) was twice less in comparison with the previous year. Instead, the sectors of closed-end and interval unit CII lost members again – 3 funds each, based on the results of the year. Closed-end funds, both diversified and non-diversified, became also 2 less. And sector of closed - end non-diversified CIF declined the most the second year in the row (- 20 funds in 2013 after -18 in 2012).

Table 1. Dynamics of the number of CII that reached compliance with the standards in 2008-2013

	Total	UIF					CIF		
		O*	*	CD*	CNN*	CV*	*	CNN*	CV*
2008	888	32	41	4	22	636	1	107	45
2009	985	32	47	8	26	690	2	130	50
2010	1095	36	48	9	32	755	2	141	72
2011	1125	43	40	10	35	772	2	128	95
2012	1222	41	38	13	45	829	2	110	144
2013	1250	38	35	11	43	861	2	90	170
2012 change,%	8.6%	-4.7%	-5.0%	30.0%	28.6%	7.4%	0.0%	-14.1%	51.6%
2013 change,%	2.3%	-7.3%	-7.9%	-15.4%	-4.4%	3.9%	0.0%	-18.2%	18.1%

*UIF - unit investment funds, CIF - corporate; O – open-ended, – interval, CD – closed-end diversified, CNN - closed-end non-diversified non-venture, CV - closed-end venture

Within the breakdown of AMC by regions, the share of Kyiv and region in 2013 almost returned to the level of 2011 - from 70.6% (in 2012 it was 70.0%), although the number of AMC here decreased by 2 companies to 245 (after +6 in 2012). Also the shares of Donetsk and Odessa regions increased slightly, the same as last year, but the number of AMC there remained unchanged. Among the other regions-leaders the numbers of AMC in Kharkiv and Dnipropetrovsk regions became, respectively, one and two AMC less.

The rest regions, out of TOP-5, covered 10.1% of the whole number of companies (in 2012 – 10.2%). They are 35 AMC, one less than a year ago (Chart 3).

Within CII breakdown by the number of funds and assets under management Kyiv also strengthened its leading position: its share in the number of CII grew from 70.2% to 71.3%, in assets - from 74.4% to 78.0%.

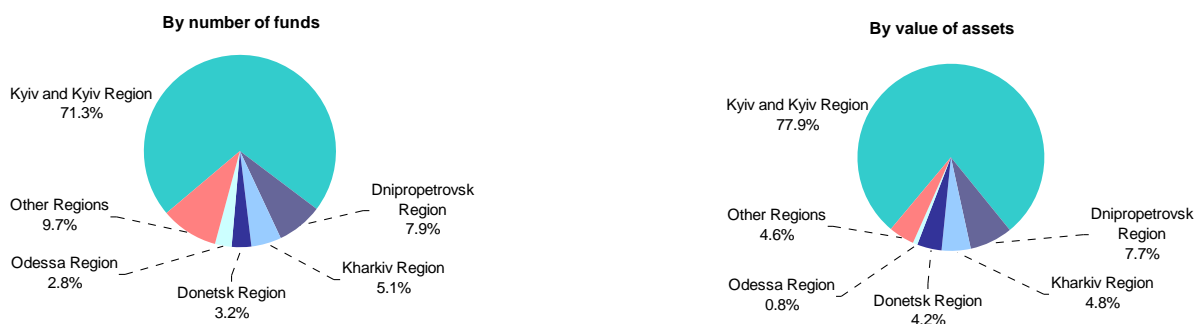


Chart 3. Regional distribution of CII by the number and the value of their assets under management, as of 31.12.2013

2.2. Assets and Net Assets of CII. Net inflow/outflow of open-ended CII

In 2013, the growth of CII market assets continued, although its rates reduced from +24% to +13%. **The total value of CII assets** under management increased from UAH 157 201 mln. to UAH 177 523 mln. over year (Chart. 4).

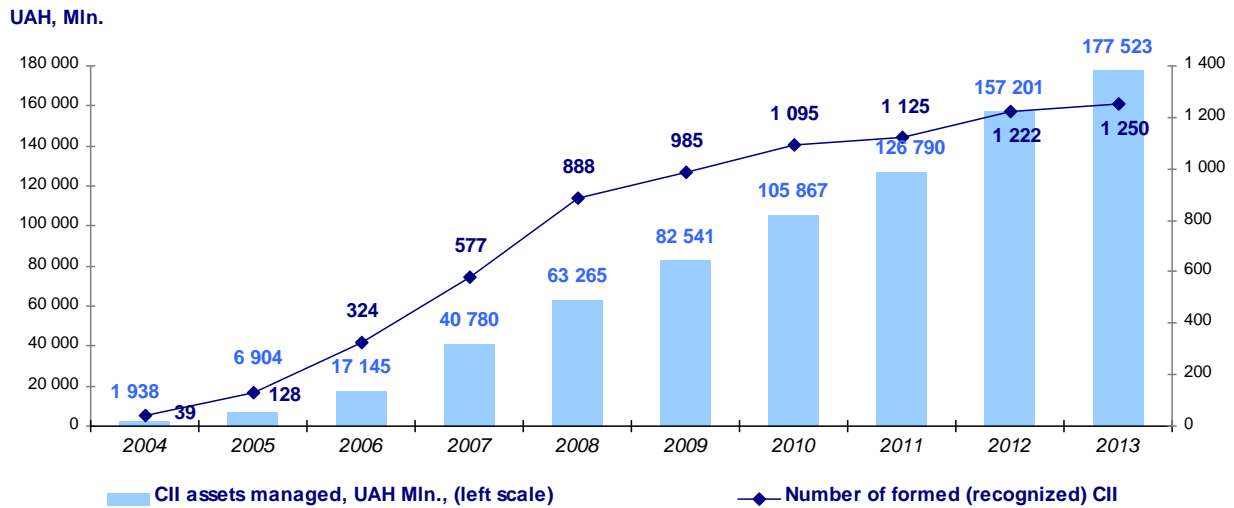


Chart 4. CII asset management market dynamics in 2004-2013

Asset growth, as well as growth in the number of funds in 2013 occurred only in the sector of venture CII - they increased their value from UAH 145 912 mln. to UAH 168 183 mln., or by 15.3%, while other CII sectors lost assets by double-digits indicators (from - 16.9% of closed-end funds to 36.2% of open-ended ones). Totally, the assets of non-venture CII decreased over 2013 by UAH 1 949 mln., or by 17.3% (Chart 5).

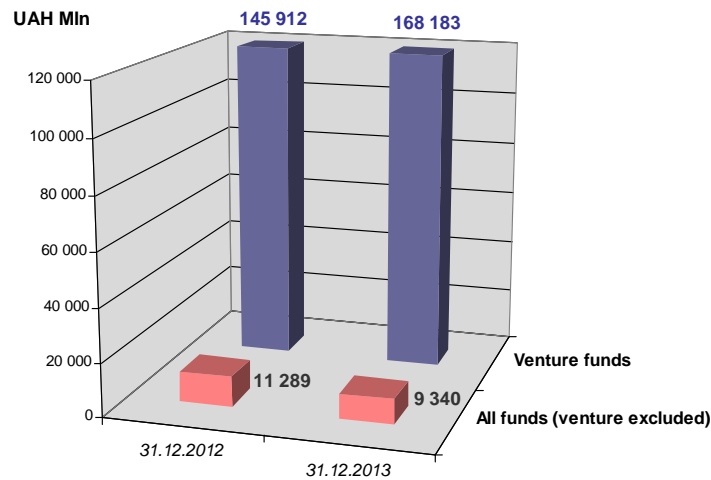


Chart 5. Asset value dynamics – venture and non-venture CII in 2013

The net asset value of all CII in 2013 increased from UAH 139 261 mln. to UAH 158 424 mln., or by 13.8% (after +23.6% in 2012) (Table. 2). At that, the number of funds that filed reports and were taken into account for calculations decreased from 1147 to 1135, including venture ones - from 973 to 965.

Table 2. CII NAV dynamics, by the types of funds in 2013, UAH mln.

Funds	31.12.2012	31.12.2013	2013 Change, UAH Mln	2013 change, %
Open-ended	160.54	103.20	-57.34	-35.72%
Interval	156.00	122.28	-33.72	-21.62%
Closed-end (venture excluded)	9 445.63	8 318.15	-1 127.47	-11.94%
All funds (venture excluded)	9 762.16	8 543.63	-1 218.53	-12.48%
Venture funds	129 498.42	149 880.84	20 382.42	15.74%
All funds (venture included)	139 260.58	158 424.47	19 163.89	13.76%



The aggregate NAV of CII, as well as total CII assets under management, grew at the expense of venture funds, net assets of which increased by UAH 20 382 mln., or 15.7% (after +24.9% in 2012). Due to this, the share of this sector grew even more - from 93.0% to 94.6% (in 2011 it was 92.0%) (Chart 6).

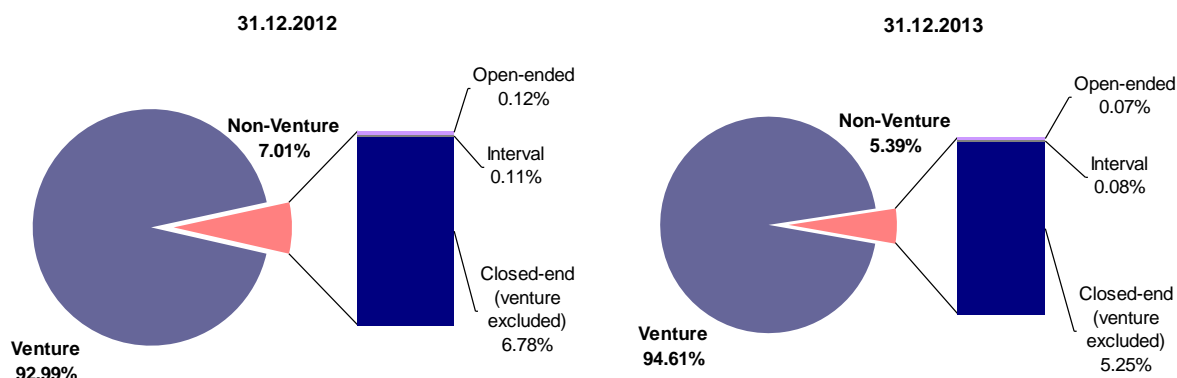


Chart 6. CII NAV breakdown, by the types of funds, as of the beginning and end of 2013

The share of closed-end funds (except venture ones) among CII also increased again in 2013, as tendency towards a more rapid decline of the NAV of open-ended and interval CII (by 35.7% and 21.6%, respectively) continued. Therefore, despite the decline in the net asset value of closed-end funds, their share increased from 96.8% to 97.4%, and of open-ended and interval ones - narrowed from 1.6% to 1.2% (twice less than in 2011) and from 1.6% to 1.4%, respectively (Chart 7).

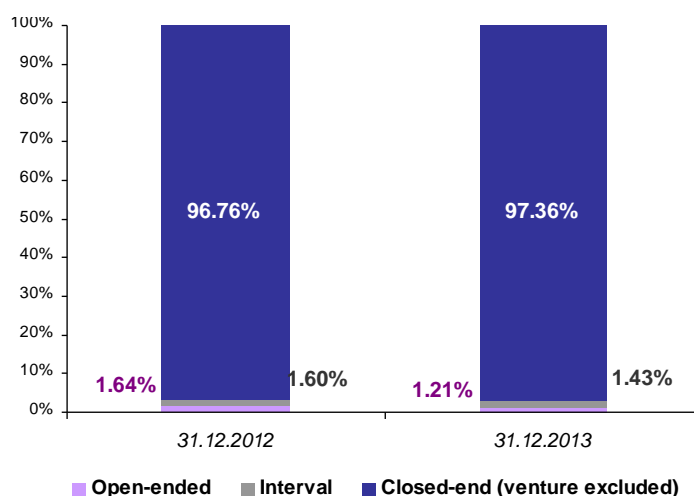


Chart 7. Non-venture CII NAV breakdown by the types of funds, as of the beginning and end of 2013

Dynamics of Ukrainian open-ended CII in 2013 contrasted sharply with a large-scale net capital inflows to European diversified open-ended funds. Domestic market kept the downtrend in conditions of the several members' exit from the business and continued capital outflow from existing funds.

Compared with 2012 an **outflow of capital from open-ended CII** in 2013 significantly weakened. Besides, in March there was even a net inflow (+ UAH 1.3 mln.), and exactly one year before the market suffered the biggest monthly outflow (-UAH 10.0 mln.). However, this was the only one out of 12 case of positive index during the year, and August brought - UAH 15.6 mln. to funds, that was an anti-record for 21 month, from November 2011 (Chart 8).

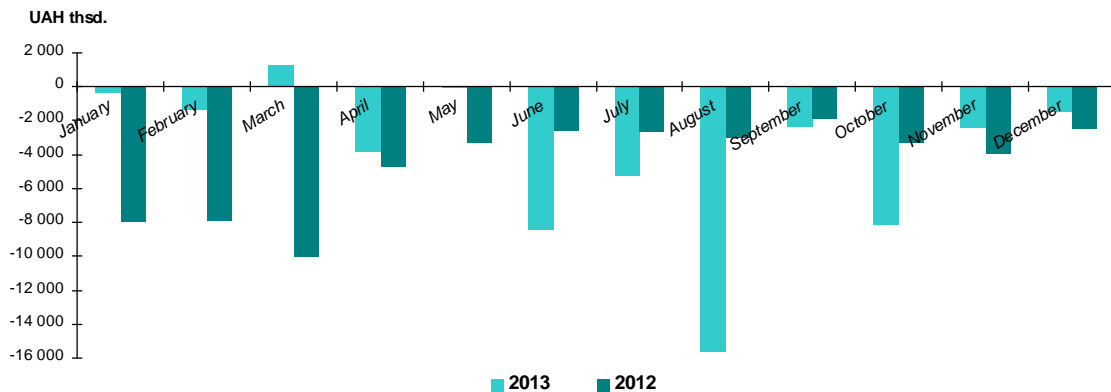


Chart 8. Monthly net inflow/ outflow of capital in open-ended CII in 2012-2013 (based on daily data)

Finally, in 2013, the net outflow once again became the main factor of reducing the NAV of open-ended funds, amounting to UAH 48.2 mln., or 84% of its decline (in 2012 – 81%). However, it declined compared with 2012 (-10.7%), as well as the average number of acting open-ended funds, based on monthly data, that almost returned to the level of 2011 – decreased from 39 to 37 (Table 3, Chart 9).

During 2013, except for May, the overwhelming share in the aggregate indicator of investors' capital movement in open-ended CII, as well as in 2012, had one fund, at that, two CII most often became leaders in rotation, and in January-March the indicators of one from them were even positive. The shares of these funds in the aggregate annual net outflow of 2013 amounted to 17% and 49%.

Table 3. Net inflow/ outflow of capital in open-ended CII in 2013 (based on daily data), UAH thsd.

	2012	Number of funds on which data are available	2013	Number of funds on which data are available
January	-7 987.1	38	-362.8	41
February	-7 952.0	38	-1 391.7	41
March	-10 031.7	38	1 297.1	41
April	-4 747.9	36	-3 870.1	42
May	-3 322.5	38	-70.3	39
June	-2 579.4	40	-8 467.5	39
July	-2 690.1	40	-5 268.5	38
August	-3 024.8	40	-15 623.2	36
September	-1 872.9	40	-2 359.8	35
October	-3 333.3	40	-8 137.0	33
November	-3 962.7	40	-2 444.7	31
December	-2 531.9	40	-1 508.2	31
Annual	-54 036.5	-	-48 206.7	-

Despite the relatively positive Q1 2013, in open-ended funds prevailed exit of investors 10 quarters in a row, during which total losses reached UAH 156.7 mln. (Chart 9).

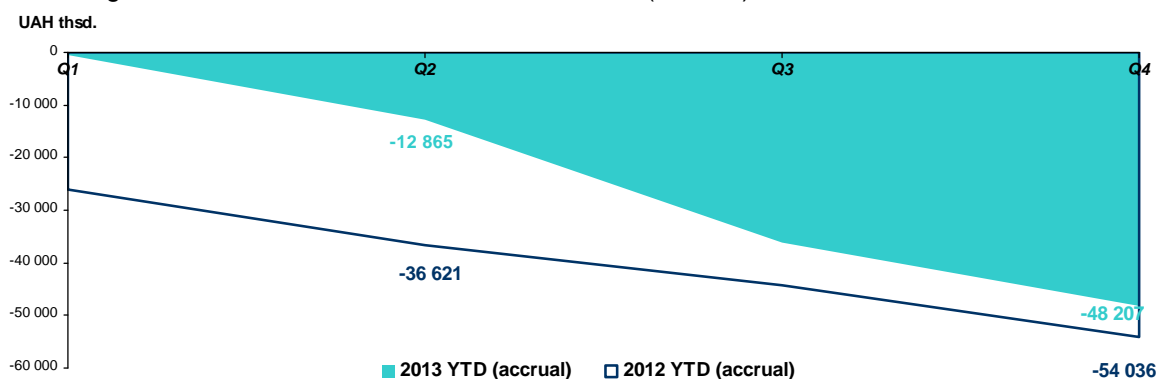


Chart 9. Net inflow/ outflow of capital in open-ended CII in 2012-2013 (accrual)



2.3. Investors of CII

In 2013 the primacy by the volumes of investments in CII was saved by **legal persons-residents**, although their part in all funds together, as well as in 2012, declined - from 80.0% to 77.4%, and in venture ones - from 80.8% to 78.3% (Chart 12). Investments of the Ukrainian enterprises in relation to other categories of investors grew only in open-ended CII among other sectors - from 42.5% to 47.6%. During the year all investors mainly withdrew money from open-ended funds, however, the investments of domestic institutional investors declined less than those of other contributors, in particular, natural persons, that resulted in their share's increase in the aggregate NAV of the sector.

In contrast, in interval and closed-end non-venture funds the share of Ukrainian legal entities diminished from 54.5% to 50.9% and from 69.9% to 63.1%, respectively. In the first ones - investments of these participants fell twice as much as those of citizens of Ukraine; in the second ones - they declined even more swift, while the aggregate investments of retail investors grew.

Natural persons-residents, who were the most active among the categories of investors, which went out from open-ended CII in 2013, eventually extended their share in them from 46.4% to 47.5%, as the withdraw of investments by other investors exceeded. In interval funds they also increased their share - from 44.6% to 48.5% - due to the closure of several CII, where the investments of enterprises prevailed.

Citizens of Ukraine were rather active contributors in closed-end funds, where their share increased significantly, and it concerns both venture funds and the rest CII of closed-end type.

In venture CII investments of retail investors-residents in 2013 grew by UAH 2 245.8 mln., or from 2.3% to 3.6% in NAV of these CII.

In other closed-end funds the volume of investments of these contributors increased by UAH 434.7 mln., that, against the background of a symbolic increase of foreign citizens' investments in these CII and sharp reduction of legal entities' ones, especially of residents, resulted in swift expansion of Ukrainian citizens' share in sector's NAV – from 23.1% to 31.5%.

Foreign investors, as of 31.12.2013, owned from 0.6% in interval CII and about 5% in open-ended and closed-end non-venture CII to 18.1% in venture ones. As well as in 2012, the share of non-residents grew up only in aggregate NAV of venture CII. Their investments in this sector grew more than twice over the year. On the whole, foreign legal entities and natural persons owned 17.5% of NAV of all recognized CII (in 2012 – 16.1%).

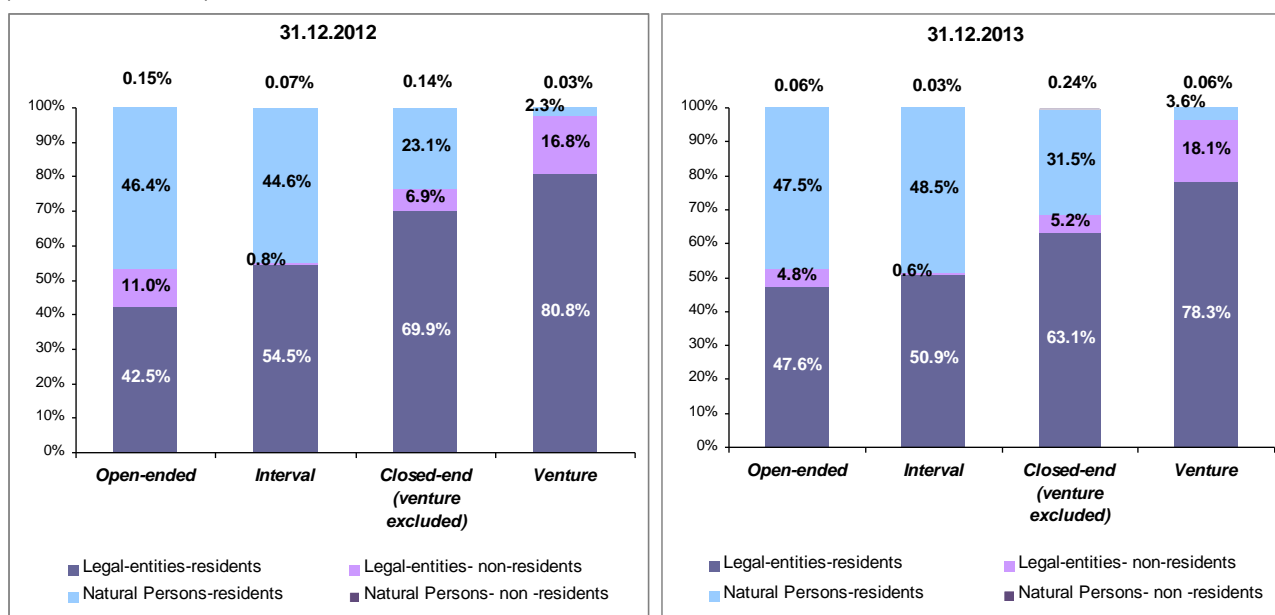


Chart 10. Investments into CII by investor categories in 2012-2013 share within NAV³

³ Without taking into account CII bearer securities, which are in circulation.



2.4. Asset Structure of CII

In CII assets at the end of 2013, traditionally, the most ones were **securities** (from 47.2% in closed-end to 72.1% in interval funds), **“other” assets**⁴ (40.1% in closed-end and 66.6% in venture funds), and also **moneys in banks** (32.1% in open-ended CII). As well as in 2012, investments in stock instruments, on a background of the downward trend in the securities’ market, declined in all sectors of CII, including interval funds, where the share of equities grew notably (Chart 10).

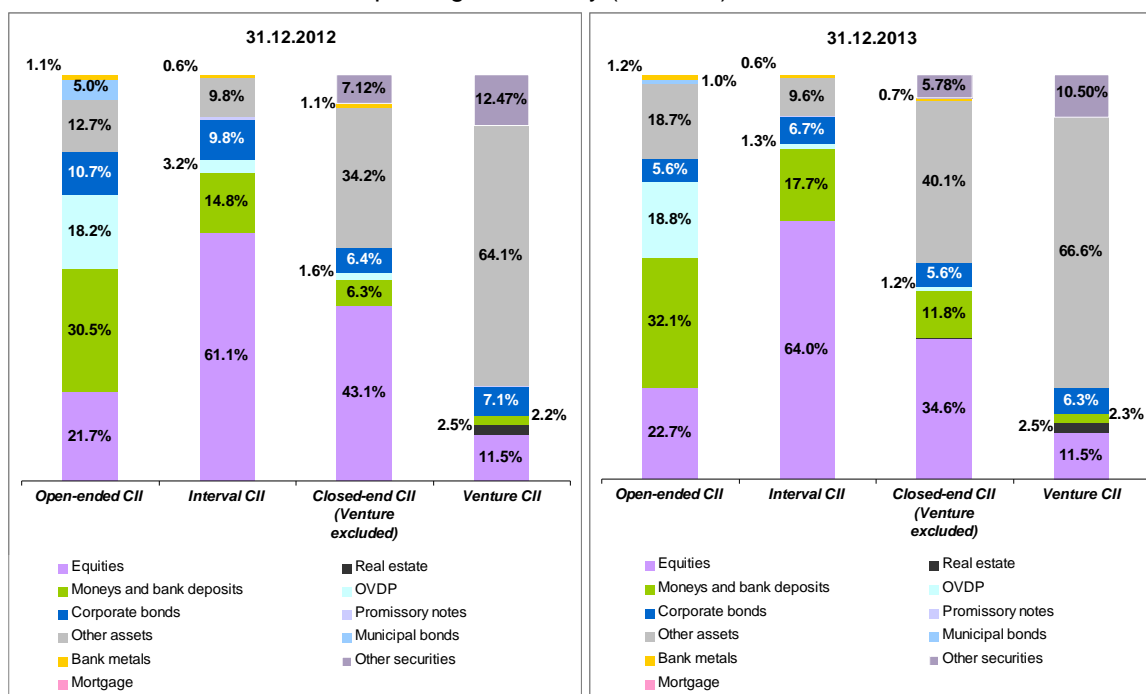


Chart 11. CII asset structure, by the types of funds, as of the beginning and end of 2013

Leadership among the types of securities by investments’ volume in all sectors of CII was retained **by equities**, that in venture funds pushed the promissory notes on the second position. *In open-ended CII* the aggregate investments in equities diminished practically at the same level with other types of securities (- UAH 11.9 mln.), but, however, not so sharply, as moneys, therefore their share increased from 21.7% to 22.7%. *In interval CII*, despite the fact, that assets in equities declined much more than others (- UAH 19.0 mln.), their share grew from 61.1% to 64.0%. Equities became less *in closed-end funds* by UAH 1 553.6 mln. This is significantly greater than the reduction of other investments, that is why the share of these securities in the sector narrowed - from 43.1% to 34.6%.

Venture CII in 2013, as well as before, among securities most of all put in equities - +UAH 2 757.0 mln. (after + UAH 4 987.3 mln. in 2012), whilst some other securities and money funds grew in the aggregate value at a rate of 1-2 orders of magnitude slower. The share of equities practically remained unchanged (11.5%), because, the same as before, the funds of this category most actively increased the contributions *in “other assets”* (+ UAH 19 287.8 mln. after +UAH 20 573.1 mln. in 2012). The latter’s share in venture CII portfolio as a whole increased from 64.1% to 66.6%.

Moneys in banks at the end of 2013 were already almost a third of all net assets of open-ended CII (32.1%, after 30.5% in 2012), despite the further reduction of the most liquid of assets component in this sector by UAH 16.4 mln. - practically the same as a year ago.

In interval CII reduction of moneys slowed down 10 times – to UAH 1.8 mln. It was also significantly lower compared with equities, so the share of moneys in bank accounts in the sector increased from 14.8% to 17.7%.

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).



Unlike 2012, the share of **government bonds (OVDP)** in 2013 increased only in open-ended CII (from 18.2% to 18.8%), although investments in them declined in absolute terms in all sectors of CI, in particular in open-ended funds – by UAH 10.1 mln. (after – UAH 9.5 mln. in 2012).

Thus, *equities* retained the primacy by the value of investments in the aggregate **portfolio of securities of all CII** in 2013, volume and share of which, the same as a year ago, grew (from 41.5% to 42.9%) due to venture funds (Table. 4).

Table 4. Aggregate CII securities portfolio, by the types of instruments, in 2012-2013

Security Type	Aggregate Value of Securities in CII Portfolios, UAH		2013 change		Share in Consolidated Portfolio of CII Securities	
	31.12.2012	31.12.2013	UAH	%	31.12.2012	31.12.2013
	Equities	21 422 944 548	22 595 479 400	1 172 534 853	5.47%	41.50%
Promissory notes	18 784 011 944	18 180 609 233	-603 402 712	-3.21%	36.39%	34.52%
Corporate bonds	10 951 497 658	11 165 820 401	214 322 743	1.96%	21.22%	21.20%
OVDP	273 039 340	148 613 827	-124 425 513	-45.57%	0.53%	0.28%
Mortgage securities	151 525 789	88 328 417	-63 197 372	-41.71%	0.29%	0.17%
Treasury bills	14 996 294	9 319 154	-5 677 140	-37.86%	0.03%	0.02%
Municipal bonds	12 398 209	1 156 728	-11 241 482	-90.67%	0.02%	0.00%
Savings certificates	0	363 113 766	363 113 766	no data	0.00%	0.69%
Derivatives	4 661 049	110 192 965	105 531 916	2264.12%	0.01%	0.21%
Others	796 486	0	-796 486	-100.00%	0.00%	0.00%
Total	51 615 871 319	52 662 633 891	1 046 762 572	2.03%	100.00%	100.00%

In the consolidated portfolio of non-venture CII in 2013 equities also remained the leaders, although they became significantly less - mainly, due to closed-end CII. Thus, reduction of assets in equities by UAH 1 584.5 mln. was accompanied by the decline of their share in the aggregate portfolio of non-venture CII from 73.7% to 73.4%, that kept the trend of the previous year (Table. 5).

Table 5. Aggregate CII securities portfolio, venture excluded, by the types of instruments, in 2012-2013

Security Type	Aggregate Value of Securities in CII Portfolios, UAH		2013 change		Share in Consolidated Portfolio of CII Securities	
	31.12.2012	31.12.2013	UAH	%	31.12.2012	31.12.2013
	Equities	4 856 911 294	3 272 429 266	-1 584 482 028	-32.62%	73.72%
Promissory notes	781 129 868	529 435 060	-251 694 808	-32.22%	11.86%	11.87%
Corporate bonds	730 035 822	523 015 734	-207 020 088	-28.36%	11.08%	11.73%
OVDP	210 808 978	131 247 055	-79 561 923	-37.74%	3.20%	2.94%
Municipal bonds	8 712 316	1 156 728	-7 555 588	-86.72%	0.13%	0.03%
Savings certificates	0	1 573 858	1 573 858	no data	0.00%	0.04%
Others	794 570	0	-794 570	-100.00%	0.01%	0.00%
Total	6 588 392 848	4 458 857 701	-2 129 535 147	-32.32%	100.00%	100.00%

Diversified CII in 2013 left unchanged the distribution of positions among the types of securities in portfolio, however the shares of separate instruments changed considerably. Thus, the share of equities fell down from 80.6% to 76.7% through a large scale reduction of these investments by most funds, but the share of promissory notes grew sharply, as well as in 2012, (from 12.3% to 18.1%), though their total value diminished (Table. 6).

Table 6. Aggregate securities portfolio of diversified CII, by the types of instruments, in 2012-2013

Security Type	Aggregate Value of Securities in CII Portfolios, UAH		2013 change		Share in Consolidated Portfolio of CII Securities	
	31.12.2012	31.12.2013	UAH	%	31.12.2012	31.12.2013
	Equities	1 102 086 915	662 292 227	-439 794 688	-39.91%	80.61%
Promissory notes	167 709 244	156 549 232	-11 160 012	-6.65%	12.27%	18.13%
Corporate bonds	53 248 426	21 728 185	-31 520 241	-59.19%	3.89%	2.52%
OVDP	35 401 715	21 888 051	-13 513 664	-38.17%	2.59%	2.53%
Municipal bonds	8 712 316	1 111 333	-7 600 983	-87.24%	0.64%	0.13%
Total	1 367 158 617	863 569 028	-503 589 589	-36.83%	100.00%	100.00%



2.5. Rates of Return CII and Other Investment Instruments

After the disastrous 2012, recession in the domestic stock market continued in 2013, when the most liquid equities lost 4-9%. Along with complication of other conditions of CII activity, investments in equities in volumes from 23% to 64%, depending on the sector (except venture ones), constrained the growth of CII rates of return. However, it took place anyhow – open-ended, interval and closed-end non-venture funds by an average rate of return went out from the negative zone into the positive one (Chart 12).

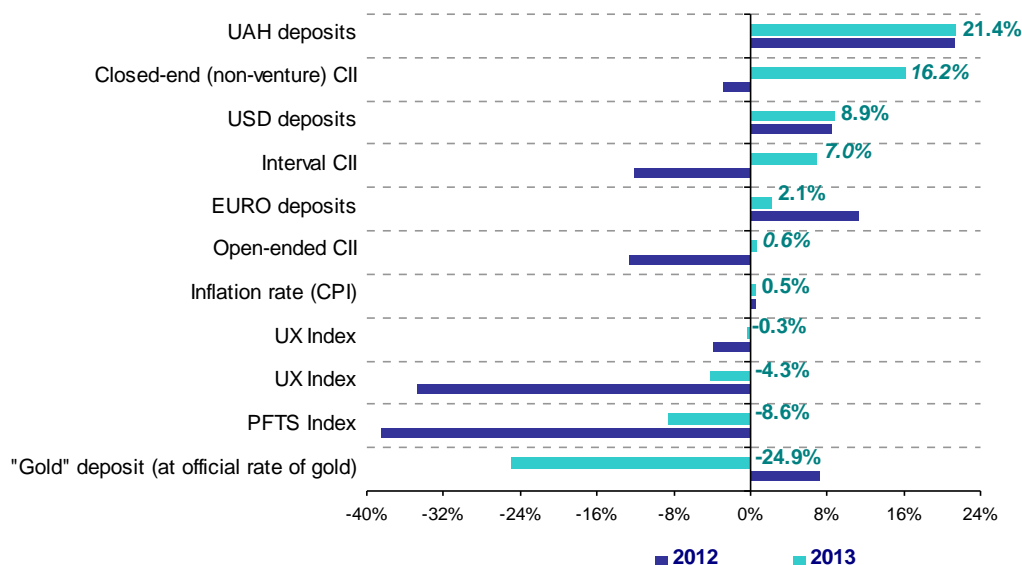


Chart 12. Average rates of return – non-venture CII, deposits, equity indexes and inflation rate in 2012-2013⁵

Protracted outflow of capital **from open-ended CII**, although somewhat weakened and was in a great measure associated with the closure of several funds, continued to put pressure on rates of return of the sector as a whole. After all, it was on average the lowest among CII by the types of funds: based on quarterly data it amounted to + 0.6%, but, however, was considerably higher than in 2012 (-12.6%). 30 funds, that worked throughout 2013 showed from -13.8% to +68.7%, reflecting the insignificant expansion of range compared to the previous year and its rapid shift up. These funds brought on average about 4% of revenue over the year. Among them, 13 funds ensured the increase of their securities' value (after 9 from 40 in 2012), at that 2 – over income of deposits in Hryvnya, 8 – of contributions in the dollars of the USA, 10 – of deposits in euros.

Interval CII showed on average higher results– their securities increased the value by 7.0% over 2013 (after -12.1% in 2012). Positive results had 42% of funds, that filed the annual reports and worked at least from the end of 2012.

Closed-end funds brought the average income amounted to 16.2% (after - 2.8% a year ago). The increase of investments was provided by 47% of these CII.

Deposits in gold were outsiders in 2013 with losses at level of - 24.9% (it was +7.3% in 2012), and the leaders were traditionally *contributions into Hryvnya* (+21.4%)⁶, although risk of national currency devaluation, that substantially grew at the end of the year, considerably weakened the attractiveness of these deposits.

⁵ CII rates of return are calculated based on the reporting data for Q1-Q4 2011 and 2012. The inflation rate provided is based on the State Statistics Committee data (Consumer price indexes –2002- 2012). Return on real estate is calculated as an average based on the data on Kyiv real estate value from web portals: : <http://www.domik.net>, <http://100realty.ua>, <http://realt.ua>.

⁶ It is necessary to take into consideration the 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 an early release of moneys based on the rate of return on current accounts (at maximum 3.0 % per annum). In the meantime, the rates of return calculated do not take into account possible commissions and other costs incurred at entry to/ exit from funds, as well as investment profit taxation.



3. Performance of NPF Asset Management Market

In 2013, the quantity of asset management companies, that had contracts for management of NPF assets decreased from 48 to 46, the quantity of funds, assets of which were under management, - from 83 to 76, and the value of pension funds' assets being serviced – from UAH 774 mln. to UAH 725 mln. based on the data of the funds that filed reports.

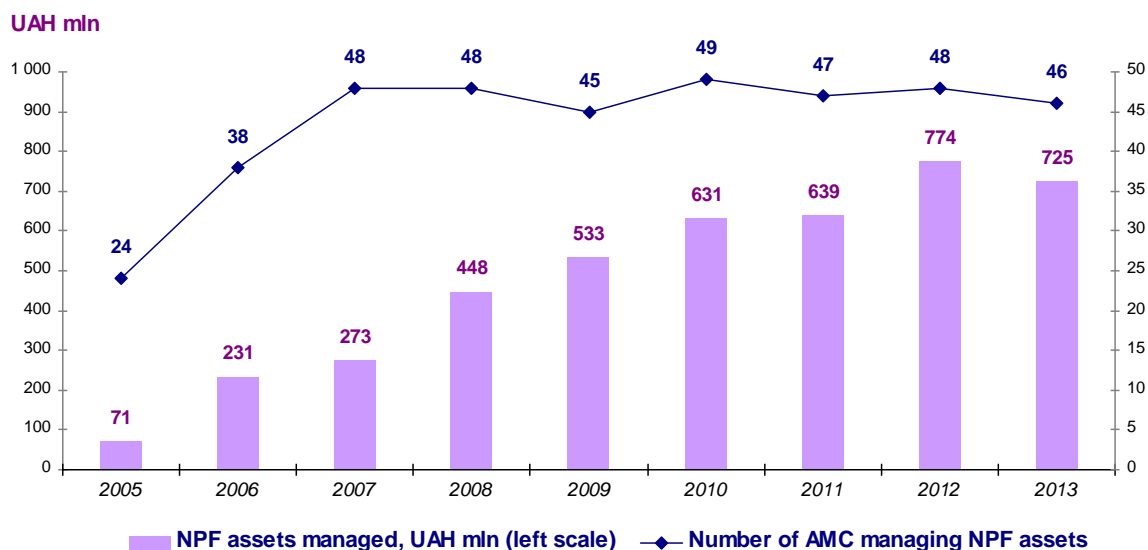


Chart 13. Dynamics of NPF asset management market in 2005-2013

Open funds remained the largest sector of NPF, though they became 5 less (61 funds) (Table 7). Number of professional NPF also decreased, but the main factor of the aggregate assets of pension assets management market's decreasing was the narrowing of open funds sector. All in all, as of 31.12.2013, 8 corporate and 7 professional NPF remained under AMC management.

Table 7. Quantity of NPF under AMC management, by the types of funds, in 2012-2013

NPF Type	31.12.2012	31.12.2013	2013 change
Open-ended	66	61	-7.58%
Corporate	8	8	0.00%
Professional	9	7	-22.22%
Total	83	76	-8.43%

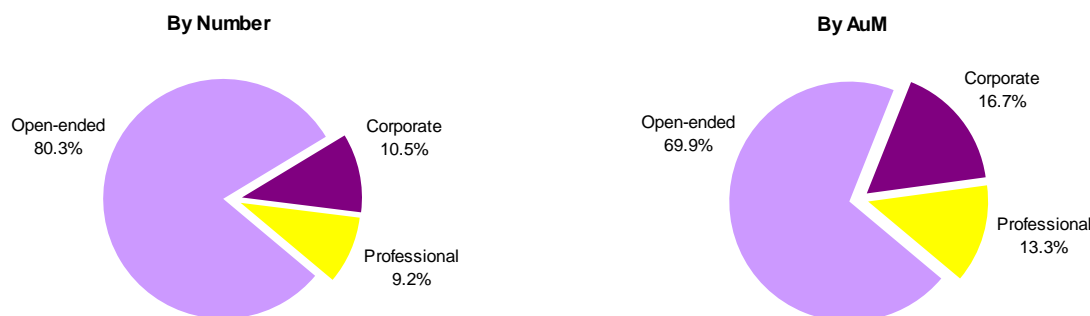


Chart. 14. Breakdown of NPF quantity and their asset value under AMC management, by the types of funds, as of 31.12.2013



An average open NPF at the end of 2013 was smaller than a corporate or professional one, but the greatest exit from the market especially of open funds narrowed significantly the share of this sector in the aggregate assets of NPF from 77.3% in 2012 to 69.9% in 2013 (Chart 14).

While assets of open NPF under management decreased by 15.2% (- UAH 90.9 mln.), assets of professional funds increased by a third (+32.3%, +UAH 23.6 mln.), and corporate ones – by 18.3% (+UAH 18.8 mln). Open NPF held UAH 507.4 mln. under AMC management at the end of 2013 (Table 8).

Table 8. Value of NPF assets under AMC management, by the types of funds, in 2012-2013

NPF Type	31.12.2012		31.12.2013		Asset change in 2013	Number of NPF reported change in 2013
	AuM, UAH mln	Number of NPF reported	AuM, UAH mln	Number of NPF reported		
Open-ended	598 302 834	65	507 421 072	60	-15.19%	-7.69%
Corporate	102 502 191	8	121 304 708	8	18.34%	0.00%
Professional	73 108 847	9	96 717 809	7	32.29%	-22.22%
Total	773 913 872	82	725 443 589	75	-6.26%	-8.54%

In assets' structure of NPF in 2013, securities prevailed (49.2%), as well as before, though their share narrowed significantly and neared to the moneys' in banks share (Chart 15).

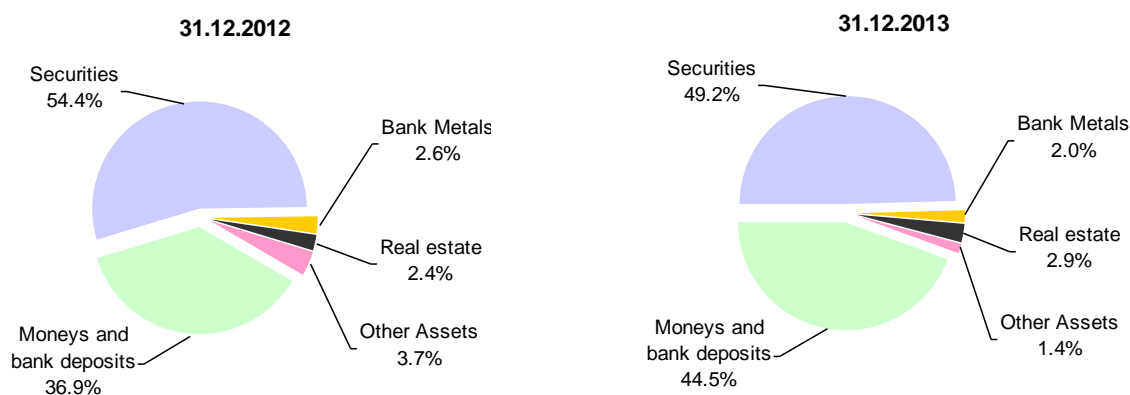


Chart. 15. Dynamics of NPF aggregate portfolio structure in 2012-2013

This was connected with stock market's dynamics and, in correspondence to it, decreasing of investments in securities by UAH 62.1 mln. Investments in securities shortened the most in open NPF – by UAH 62.1 mln., and in professional ones practically remained unchanged. Investments in bank metals and other assets also became less – by UAH 5.1 mln and UAH 19.0 mln., respectively. This mainly was due to the dynamics in the sector of open NPF. Thus, these directions of investments became the least ones in the aggregate portfolio of NPF assets under management, and real estate, the aggregate value of which in assets grew by UAH 2.2 mln. – due to professional NPF, enlarged its share from 2.4% to 2.9%.

And assets in moneys grew the most – by UAH 37.5 mln – in assets of professional and corporate NPF, while in open ones – moneys became less only by UAH 3.8 mln.

As well as before, there were no real estate in corporate funds and bank metals in professional ones (Table 9).

Table 9. Structure of NPF assets under AMC management, by the types of funds, as of 31.12.2013, UAH mln

NPF Type	Moneys and bank deposits	Securities	Bank Metals	Real estate	Other Assets
Open-ended	229 558 585	242 577 521	13 583 653	15 740 553	5 960 760
Corporate	59 025 157	60 661 123	1 107 380	0	511 048
Professional	34 467 688	53 824 182	0	5 050 939	3 375 000
Total	323 051 430	357 062 826	14 691 033	20 791 492	9 846 808



Due to the increase of investments in banks, professional NPF narrowed the securities' share from 73.8% to 55.7%, which, however, remained the largest among the types of NPF. Thus, there were 47.8% of open funds at the end of 2013, after 50.9% in 2012, and in corporate ones the securities' share decreased from 61.0% to 50.0%. Moneys' share increased in all sectors and comprised almost a third in professional and almost half – in open and corporate NPF (Chart 16).

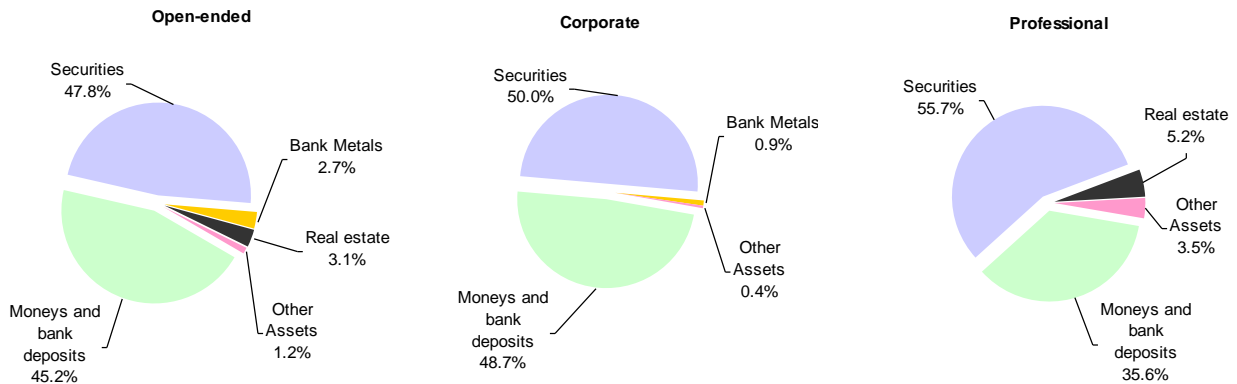


Chart 16. Structure of NPF assets, by the types of funds, as of 31.12.2013

4. Performance Results of the Market of Insurance Companies' Asset Management

On the market of asset management of insurance companies in 2013 also the downtrend dynamics was observed. According to the performance results of the year, the number of AMC, to which insurance companies transferred their assets under management, decreased from 5 to 4, as in 2011 (Chart 17).

The number of insurance companies, that are served by AMC, also became 1 fewer (5 in total), and volume of their assets managed by AMC decreased from UAH 60.7mln. to UAH 19.9 mln.

It was due to an exit from the market of company which managed the most volume of assets of two insurance companies.

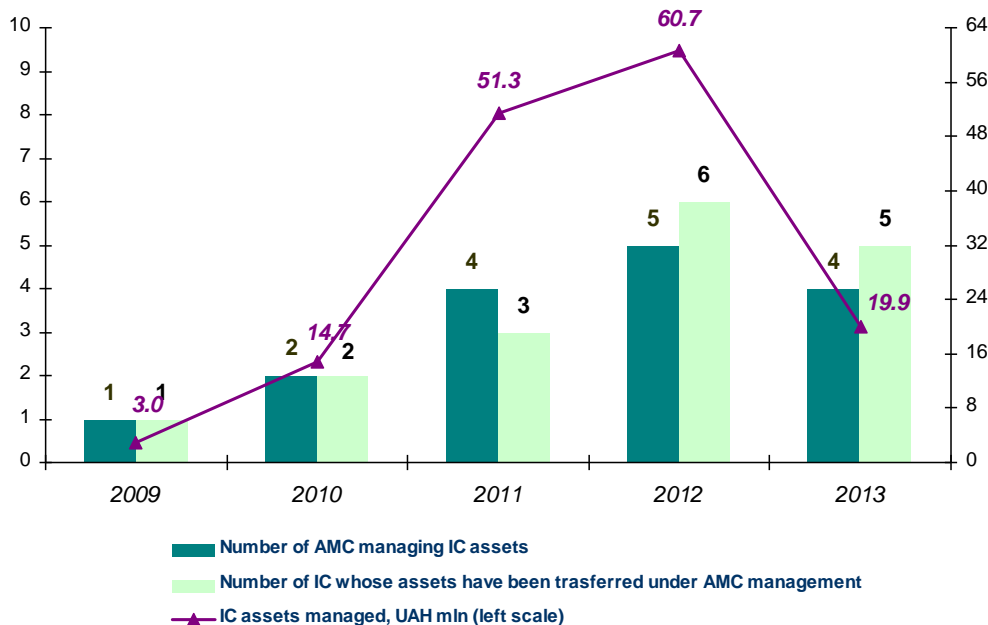


Chart 17. Dynamics of the market of IC asset management in 2009-2013



5. Resume and Next Year Prospects

In 2013 the asset management industry in Ukraine as a whole continued to grow both quantitatively and in terms of assets' volume and rates of return. But a number of negative trends observed in the previous year continued.

Unlike key world stock indicators, the Ukrainian indexes over this year lost even more in a value, but were in a trend with emerging markets, which also experienced outflows of capital. And although a sharp socio-political situation in Ukraine in the last months of the year did not stipulate falling of «blue chips» of domestic stock market, investors' exit from CII prevailed the third year in row. While in open-ended funds net outflow was at the same level as in 2012, excluding funds that left the market and settled up with investors, in venture ones it increased, at that, it were non-residents that mostly left this sector.

Over the year, **the number of asset management companies** that exit from business, exceeded the openings of new ones, and the total number of market's participants declined for the first time since 2010.

Collective investment institutions, however, became more – both in total quantity and in number of those that reached compliance with minimal assets value standard. Only the sector of venture funds expanded, however, the growth here was also slowed twice compared to 2012. The sectors of open-ended and interval UIF and closed-end non-venture CII at the end of 2013 covered a smaller number of funds. For open-ended funds this was the second year of reduction, for interval and closed-end ones – the third one.

The aggregate net assets of all CII in 2013 almost doubled reduced growth, and venture funds again were the engine of growth.

During the year, the **aggregate net outflow of capital** from open-ended CII was fixed monthly, except March, and, however, for the year results it declined slightly, although did not lose its importance in reducing the sector's NAV. The greatest losses from investors' exit were experienced by balanced, conservative funds, including also money market ones. These funds, however, were the leaders by the annual rate of return.

As a whole, 2013 was marked for the collective investments market by positive developments in the form of increased rates of return, particularly in non-venture investment funds. More than one-third of open-ended CII provided the rising value of contributors' investments, while a year ago there were less than a quarter. Nearly half of closed-end and interval CII had also a positive yield. In general, the number of public (non-venture) funds could compete with bank deposits by rates or return in 2013.

In the market **of non-state pension funds' asset management** 2013 passed by the downward dynamics, in contrast to the previous year. The number of AMC which managed NPF assets, as well as the number of NPF themselves and value of their assets under management decreased, at that, assets declined for the first time in 9 years. Open NPF remained the largest segment, which held more than 3/4 of the market by the number of funds and 2/3 by assets under management.

Insurance companies with assets under management also became fewer **in 2013**, and their total assets in AMC service dropped 3 times due to complete closure of business by the company, that had the most volume of IC assets under management during the year.

In 2013 the market of institutional investors' asset management was tested by the changes of legislation, in particular with regard to tax and depositary systems, and also licensing conditions for companies' activity. While some changes limited AMC possibilities and restrained the growth, other ones, though were difficult, however in mid- and long term perspectives can increase the efficiency of companies' and funds' performance.

Inuring at the beginning of 2014 of the new Law "On CII", designed to enhance the ability to work in the collective investments' market and bring its conditions closer to those, that exist in the developed globe markets, will stimulate the emergence of new types of funds, that will satisfy better the investors' needs. At the same time, success here will largely depend on developments in the stock market as a whole, in particular in the topics concerning increasing the number and improving the quality of the issuers, securities



of which are traded on the stock exchanges, in particular are in the listing. It is also necessary to preserve the current regime of tax treatment of CII and investors' income.

Formation of the effective three-level pension system is also impossible without sustained economic growth and stock market's development for ensuring the wide possibilities for effective management of pension assets. Having led a decade ago in the legislation the mechanism of creation and development of the funded pillar component of the pension system, which is generally in line with EU guidelines, Ukraine is still waiting for political changes that would finally give a push to implementation of the second (state) accumulation level of the pension system.

Political instability, economic decline and the need for fundamental structural reforms will further complicate the conditions for AMC activities in Ukraine during next year. The market of assets management will face new challenges in the form of new government's legislative initiatives, which, however, can also give a push for the long-awaited high-quality growth of market. This will be facilitated also by increase of foreign investors' interest and trust to Ukraine.

For more details on AMC and CII performance in 2013 please also see [Analytical Review of the Collective Investments Market in Q4 2013](#)⁷

Additional information on CII on the UAIB website:

- The Ukrainian Fund Market in Figures⁸
- Weekly statistics of Open-Ended CII⁹
- Monthly Reviews of Public CII¹⁰
- CII Rankings¹¹
- AMC Rankings¹²

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⁷ http://www.uaib.com.ua/analituaib/publ_ici_quart/194289.html

⁸ <http://www.uaib.com.ua/eng/analituaib.html>

⁹ http://www.uaib.com.ua/eng/analituaib/publ_ici_week.html

¹⁰ http://www.uaib.com.ua/eng/analituaib/publ_ici_month.html

¹¹ <http://www.uaib.com.ua/eng/analituaib/rankings/ici.html>

¹² <http://www.uaib.com.ua/eng/analituaib/rankings/kua.html>