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**1. The Stock Market**

In Q4 2011, a moderate trend came to replace the stock market downtrend that had started with a downfall at Q3 beginning.

During that period indexes remained highly volatile due to the problems, which became burning with the start of the second half year, and a growing tension in the key sectors of the global economy – the international trade and the capital markets. As macroeconomic indicators, in particular those related to population employment level and housing market, were gradually improving in the US, the crisis of government debt in the EU was developing. The problems of economic growth and inflation in China, which had been constrained by the efforts of the country's government and the central bank, were remaining topical.

A potential default of Greece on its government debt, the probability of which was a subject of non-stop discussions of experts, and a similar situation in several countries of the euro zone were undermining international investors' trust in economic growth strengthening and provoked a certain chaos both in the equities and bonds markets, in the first turn, in sovereign bonds' markets.

By year end, investment moods around the globe improved, as positive signals prevailed in the majority of markets, and allowed stock indexes to demonstrate quarterly growth. Major equity market indicators demonstrated between -2.82% (Japan) and 11.95% (USA). Chinese equities lost in prices most (-6.77%). Eastern-European markets also had diverse quarterly results: key Polish index lost about 2%, and Russian indicators grew by 2-3%.

In Q4, the dynamics of the Ukrainian stock market weakly correlated with the one of the well-developed European markets. And, though quarterly results of the two main indicators of the national equities were close to the indicators of neighbouring countries, they were considerably different between themselves, as nominal growth of UX index in Q4 by 1.12% was observed at the same time with PFTS index sinking by 4.96% (Table 1, Chart 1).

*Table 1. National markets' stock indexes in Q4 and since the beginning of 2011\**

Indexes	31.12.2010	30.09.2011	31.12.2011	Q4 2011 change	2011 change
DJIA (USA)	11 577.51	10 913.38	12 217.56	11.95%	5.53%
S&P 500 (USA)	1 257.64	1 131.42	1 257.60	11.15%	-0.003%
FTSE 100 (Great Britain)	5 899.94	5 128.48	5 572.28	8.65%	-5.55%
DAX (Germany)	6 914.19	5 502.02	5 898.35	7.20%	-14.69%
CAC 40 (France)	3 804.78	2 981.96	3 159.81	5.96%	-16.95%
HANG SENG (Hong Kong)	23 035.45	17 592.41	18 434.39	4.79%	-19.97%
RTS (Russia)	1 770.28	1 341.09	1 381.87	3.04%	-21.94%
MICEX (Russia)	1 687.99	1 366.54	1 402.23	2.61%	-16.93%
UX (Ukraine)	2 443.70	1 442.73	1 458.87	1.12%	-40.30%
WSE WIG 20 (Poland)	2 744.17	2 188.73	2 144.48	-2.02%	-21.85%
NIKKEI 225 (Japan)	10 228.92	8 700.29	8 455.35	-2.82%	-17.34%
PFTS (Ukraine)	975.08	562.32	534.43	-4.96%	-45.19%
SHANGHAI SE COMPOSITE (China)	2 808.07	2 359.22	2 199.42	-6.77%	-21.68%

\* Based on the data of exchanges and Bloomberg Agency

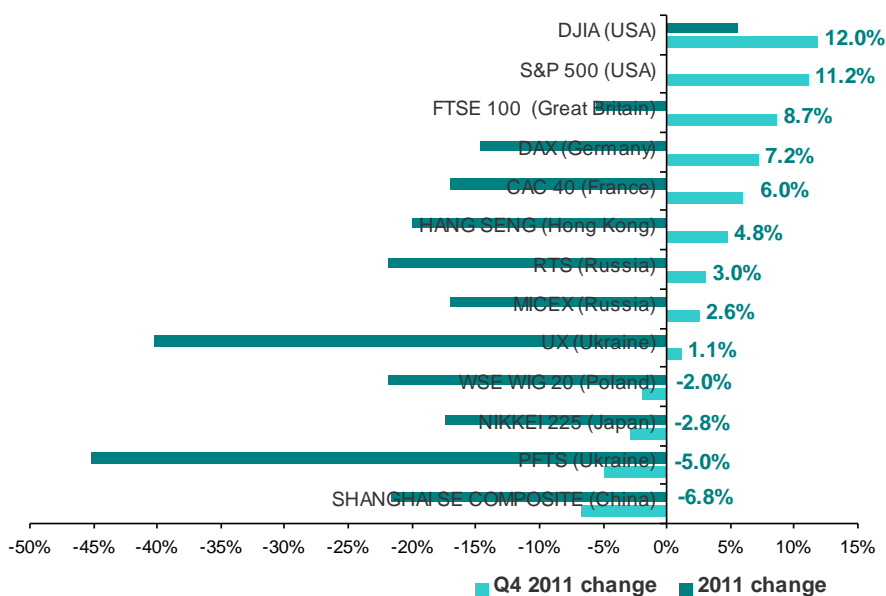


Chart 1. National markets' stock indexes' dynamics in Q4 and since the beginning of 2011\*

\* Based on the data of exchanges and Bloomberg Agency

During the first two weeks of Q4 most liquid equities of the national issuers became almost 12% cheaper, but by the beginning of December managed not only make up for it, but also added almost the same 12% lost since Q3 end. In December, an abrupt downward change of trend resulted in a minor quarterly growth.

Reserved behavior of investors that had been observed during three preceding months did not change in Q4. According to the Ukrainian Exchange data, both the number of trades and the trading volume in the stock market decreased: the total value of trades – by 29.85% after 17.11% decrease in Q3, and the number – by 2.76%. In the equities' segment investors became even less active – by 33.70% by trading volume and 0.74% by the number of trades.

The total value of equity transactions on PFTS dropped even more over the quarter – by 17.34% (after 5.73% in Q3), and in the main sector of the exchange – OVDP trading – by 33.77%.

**Over 2011**, among all key global stock market indicators growth was registered only by narrow US equity index DJIA (+5.53%), whilst Western-European equities dropped by 6%-17%; Chinese, Polish and Russian ones – by 17%-22%, and Ukrainian ones, similar to crisis 2008, lost twice more – 40-45%.

## **2. The Number of AMC and CII**

In Q4 2011, according to the UAIB data, the number of asset management companies in Ukraine continued to decrease (-4 AMC) and as of 31.12.2011 reached 341 (Chart 2). In the meanwhile, over the year it grew (+2 AMC) for the first time since 2008, and a peak number by quarterly data was registered in mid-year (347 as of 30.06.2011).

Just as before, the dynamics of companies' number remained two-way one: some AMC were winding up, and some were entering the market. All in all, in 2011 the industry was in the state of balance.

The tendency towards CII number increase also was stable (+36 funds after +40 in Q3). As of 31.12.2011 there were 1451 CII (compared to 1226 as of 31.12.2010).

An opposite nature of the trends of AMC and CII number promoted further concentration of the activity on collective investment institutions' asset management: at year end one AMC was managing 4.26 investment funds on average.



**UKRAINIAN ASSOCIATION OF INVESTMENT BUSINESS**  
**Analytical Review of the CII Market in Ukraine**  
**(Q4 2011)**

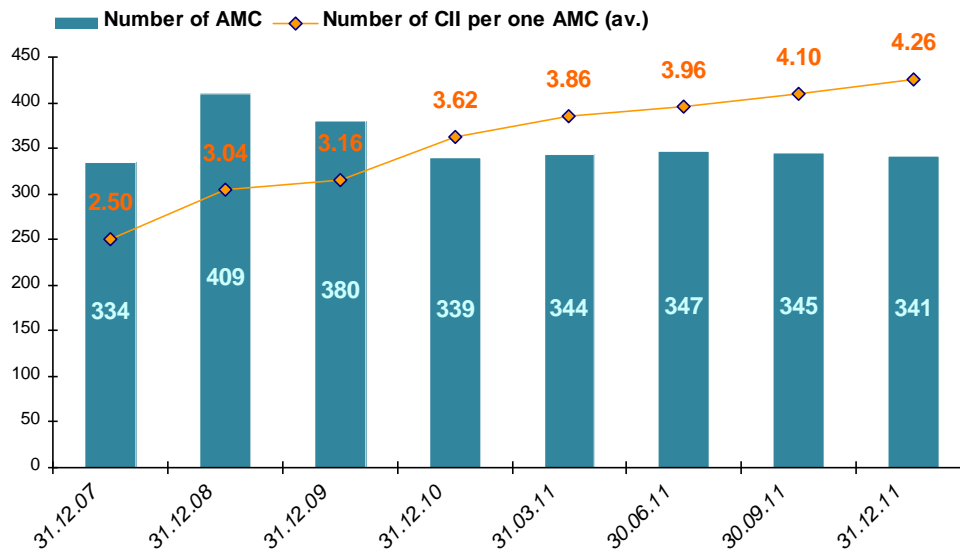


Chart 2. Dynamics of the number of AMC and CII per one AMC in 2007-2011

As the number of new (registered) funds was decreasing, and earlier established CII were liquidated, in Q4 2011 the number of funds that reached compliance with the standard on minimal asset volume, decreased (-81 after +28 in Q3). As of 2011 end in Ukraine, according to the UAIB data, there were 1125 collective investment institutions that reached compliance with the standards (Table 2).

Table 2. Dynamics of the number of CII that reached compliance with the standards in Q4 2011 and in 2011

Date	Total	UIF					CIF		
		O*	*	CD*	CNN*	CNV*	*	CNN*	CNV*
31.12.2010	1095	36	48	9	32	755	2	141	72
31.03.2011	1167	40	49	9	33	809	2	134	91
31.06.2011	1178	42	47	9	36	822	2	130	90
30.09.2011	1206	43	47	10	39	844	2	127	94
31.12.2011	1125	43	40	10	35	772	2	128	95
Q4 2011 change	-6.72%	0.00%	-14.89%	0.00%	-10.26%	-8.53%	0.00%	0.79%	1.06%
2011 change	2.74%	19.44%	-16.67%	11.11%	9.38%	2.25%	0.00%	-9.22%	31.94%

\* O – open-end, – interval, CD – close-end diversified, CNN – close-end non-diversified non-venture, CNV – close-end non-diversified venture

In fact, only the sector of venture CIF in Q4 demonstrated a nominal increase in the number of recognized and operating funds (+1 fund, +1.06%). Several other sectors experienced no changes in the number of “players”, and a decrease occurred in the sectors of interval UIF (-7 funds, -10.26%), close-end non-diversified UIF (-4, -10.26%), as well as venture UIF, where a usual upward dynamics of the number of funds under management was replaced by a downward one (-72, -8.53%).

In the sector of open-end funds, just as in Q3, one new participant emerged which reached compliance with the standards by the end of 2011. In the meanwhile, one earlier operational fund was liquidated in Q4, therefore, the number of officially operating funds of that type remained unchanged. At that, at least two open-end CII started liquidation procedure, and the asset value of thirteen funds as of 31.12.2011 was below the minimal volume standard. In view of the above, as well as due to an absence of new registered CII during Q3-4, the probability of further narrowing of this sector grows further.

The number of registered CII that accumulated assets but in Q4 were yet to be recognized, decreased from 195 to 175.



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

As the total number of asset management companies in Ukraine decreased by 4 in Q4 2011, the number of AMC in Kyiv and Kyiv region decreased by 2 – up to 241 (Chart 3). At that, the share of Kyiv within the regional distribution of asset management business even somewhat increased (from 70.43% to 70.67%).

In other regions, most notable were exits from the market of the only AMCs that had operated in Mykolayiv region, as well as in Tchernihiv region. Kharkiv region also lost one company (20).



Chart 3. Regional distribution of AMC number as of 31.12.2011

The situation in the regional distribution of CII under AMC management in Q4 did not change significantly, with most notable changes occurring in Kharkiv and Dnipropetrovsk regions. The share of the former within an aggregate number of CII under management went up from 6.01% to 6.46%, and of the latter – from 7.92% to 8.27%.

TOP-5 regions by the number of funds under management, just as during the previous quarter, included Zaporizhzhya region (whose share decreased from 3.01% to 2.99%), although a smaller, compared to the rest of the regions-leaders, number of asset management companies prevented it from being on TOP-5 by AMC number this time, just as before.

Within the regional distribution of CII assets under AMC management a notable growth occurred in the share of Kyiv and region (from 72.41% to 73.42%), whilst a decrease occurred in the respective shares of Dnipropetrovsk (from 10.31% to 9.95%) and Kharkiv (from 5.32% to 4.41%) regions (Chart 4).



Chart 4. Regional distribution of CII by the number of CII and the AuM, as of 31.12.2011



#### 4. The Asset and the NAV of CII. The Net Inflow/Outflow of Open-End CII

Despite a decrease of the number of recognized funds in Q4 2011, the aggregate assets of the CII market grew – mainly due to a somewhat different, compared to Q3, makeup of funds at a growing total number of the reports filed. Among them were large venture CII that had not been covered in the previous review. That made up for the drop in asset value of some funds and the absence of reports of some other greatest funds, and resulted in the growth of an aggregate asset value up to UAH 126 789.60m, including of the venture ones – up to UAH 116 901.41 mln (Chart 5).

In Q4, unlike in the preceding quarter, non-venture CII of all types demonstrated asset decrease, as significant volatility and generally negative situation was characteristic of the stock market. However, in Q4, seven fewer close-end non-venture funds were taken into account in the calculations. Also, there was one more open-end CII, and two fewer interval CII covered.

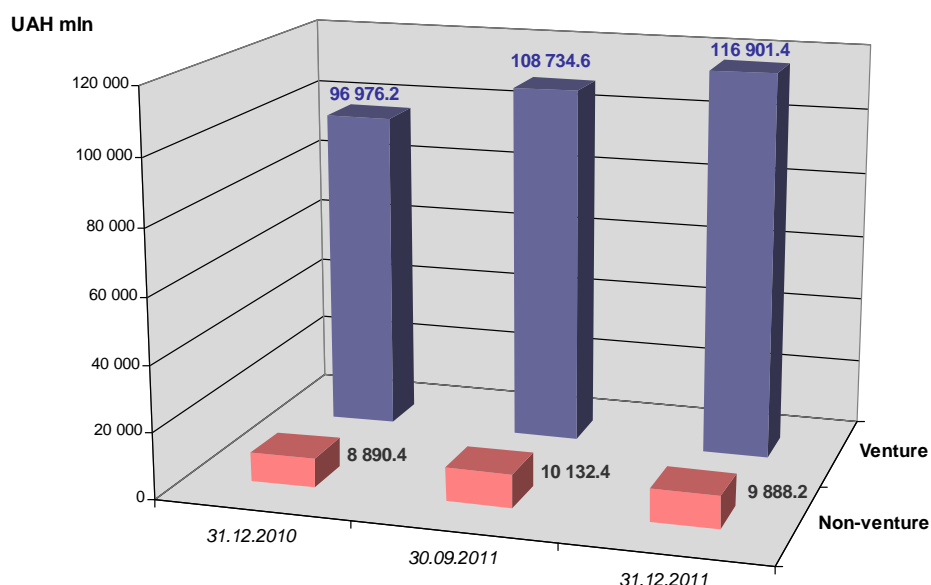


Chart 5. Dynamics of the asset value of venture and non-venture CII in Q4 2011 and since the beginning of 2011

The dynamics of **the net assets** of the majority of CII types in Q4 was traditionally very similar to the changes in the total assets. The greatest drop was observed in the NAV of the open-end funds' sector (-13.92%, -UAH 37.92 mln), though decrease also occurred among interval and close-end CII. The net assets of all non-venture CII in aggregate declined by UAH 431.73 mln (-4.56%) (Table 3).

In the meanwhile, growth in the venture sector fully compensated for the decrease of Q3 and reached UAH 8 834.94 mln (+9.32%). An aggregate NAV of the CII of all types and categories as of Q4 2011 end comprised UAH 112 691.07 mln (+UAH 9 117.51 mln, +8.80%).

On the whole, according to the results of **2011**, CII aggregate net assets grew by UAH 17 949.73 mln (+18.95%), including venture ones – by UAH 17 217.86 mln (+19.92%). The NAV of open-end and interval funds since year beginning dropped by 19.31% (up to UAH 227.01 mln) and 25.84% (up to 181.85 mln) respectively. At that, the number of open-end ones increased, and of interval ones – decreased.

Table 3. Dynamics of CII NAV, by the types of funds in Q4 2011 and since the beginning of 2011, UAH mln

Funds	31.12.2010	30.09.2011	31.12.2011	Q4 2011 change	2011 change
Open-end	281.35	263.72	227.01	-13.92%	-19.31%
Interval	245.22	188.42	181.85	-3.49%	-25.84%
Close-end (non-venture)	7 775.72	9 013.74	8 625.30	-4.31%	10.93%
All non-venture	8 302.29	9 465.88	9 034.16	-4.56%	8.82%
Venture	86 439.05	94 821.97	103 656.91	9.32%	19.92%
<b>All (including venture)</b>	<b>94 741.33</b>	<b>104 287.85</b>	<b>112 691.07</b>	<b>8.06%</b>	<b>18.95%</b>



In Q4, an outflow from *open-end funds* increased, particularly in November, when it reached – UAH 23.65 mln (Chart 6, Table 4). That was due to a commotion in the stock exchanges and unclear prospects as to further stock market dynamics, which provoked investors to take profits and exit funds.

Over 85% of an aggregate outflow in November was due to two funds, with the share of one of them amounting to 64%. Within the quarterly outflow that reached UAH 37.01 mln, one fund's share comprised 61% (-UAH 22.52 mln). In the meanwhile, not all open-end CII had negative balance of certificates' purchase-sale during that period.

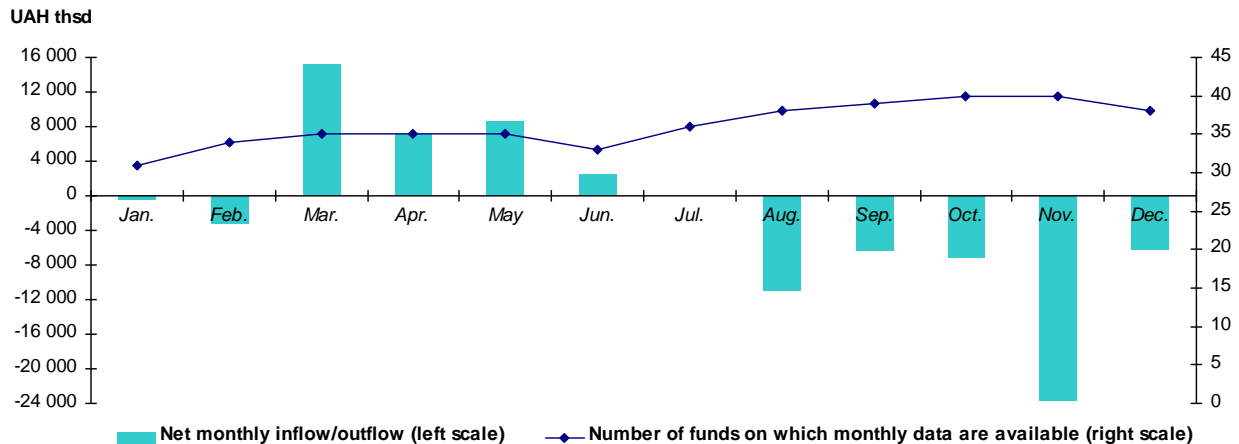


Chart 6. Monthly net inflow/ outflow of capital in open-end CII in 2011 (based on daily data)

Table 4. Net inflow/ outflow of capital in open-end CII in 2011 (based on daily data), UAH thsd

Period	Net monthly inflow/outflow	Net quarterly inflow/outflow	Net inflow/outflow since 2011 beginning	No. of funds with available monthly data
Q1	January			31
	February	11 552.16	11 552.16	34
	March	15 090.6		35
Q2	April	18 359.28	29 911.44	35
	May	8 682.4		35
	June	2 504.9		33
Q3	July	-17 427.29	12 484.16	36
	August	-11 040.6		38
	September	-6 343.1		39
Q4	October	-7 217.0		40
	November	-23 654.6	-24 525.40	40
	December	-6 138.0		38

Q4 outflow neutralized Q1-2 net inflow to the sector, and funds lost about UAH 24.53 mln according to the results of 2011 (Chart 7).

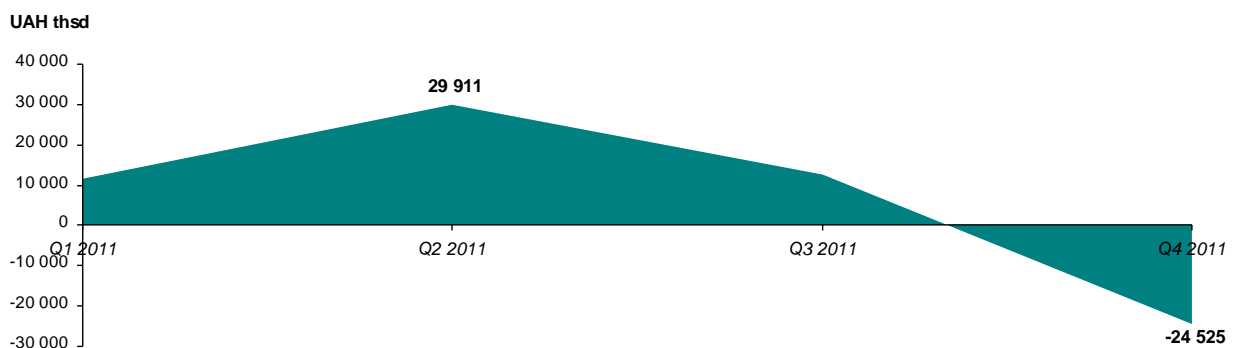


Chart 7. Net inflow/outflow of capital in open-end CII since the beginning of 2011 (quarterly basis, progressive total)



In Q4, within the breakdown of NAV, just as of the aggregate assets of non-venture CII by the types of funds, the share of open-end funds decreased – from 2.79% to 2.51%, which came as a consequence of more significant descending dynamics of this sector compared to the other ones'. Thus, the share of close-end funds grew from 95.22% to 95.47%, and of interval ones – from 1.99% to 2.01% (Chart 8).

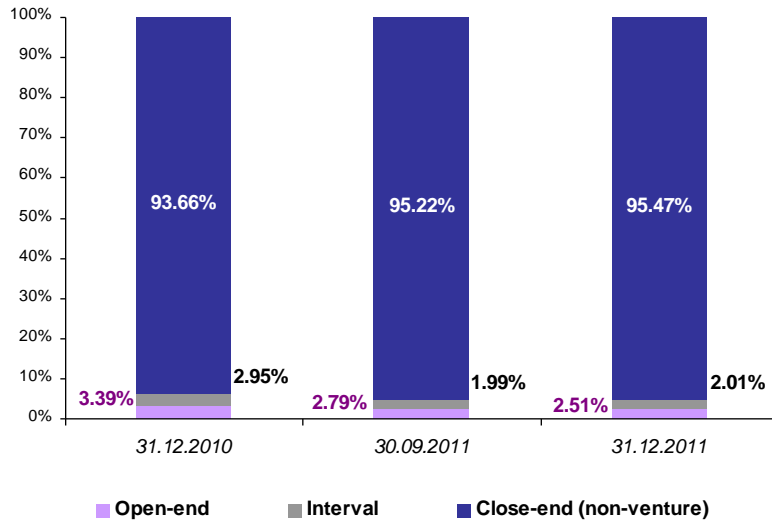


Chart 8. Dynamics of the non-venture CII NAV breakdown by the types of funds in Q4 and since the beginning of 2011

The only sector with a positive NAV dynamics in Q4 – venture one – grew its share within the aggregate net asset value of CII market from 90.92% to 91.98% (Chart 9) after Q3 decrease (from 92.35%).

**In 2011**, an almost 20% growth of the net assets of the venture sector provided for its respective share increase up to almost 92% (from 91.24% as of 31.12.2010).

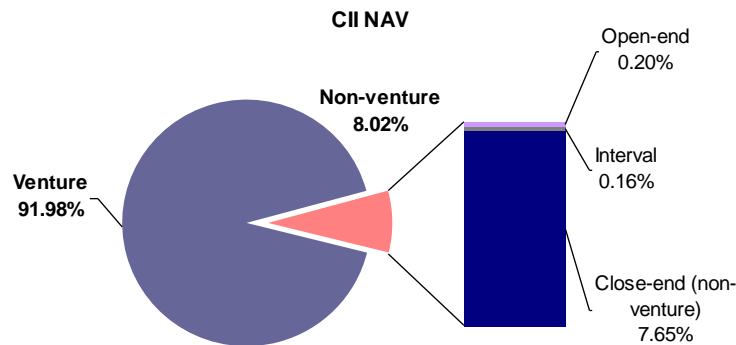


Chart 9. Distribution of CII NAV by the types of funds as of 31.12.2011

### **5. The Asset Structure of CII**

The dynamics of the aggregate portfolios of different types of CII by the types of instruments in Q4 2011 demonstrated changes in the breakdown of the main groups of investments, most of which were opposite to Q3 trends. For instance, the share of securities in all venture-type funds grew by 0.65 p.p. to over 60% (Chart 10).



In the meanwhile, in monetary terms, an aggregate value of investments into stock market instruments in all non-venture CII lowered by UAH 53.28 mln, including in open funds – by UAH 14.48 mln, and grew a little in interval CII only (+UAH 0.18 mln).

The share of investments into *equities* grew in open-end and interval CII only, and of corporate bonds – in open-end, close-end and non-venture CII on the whole. At that, the amount of investments into equities increased solely in interval funds (+UAH 2.49 mln), and in open-end ones an increase of the equities' share was accompanied by a minor decrease of their value and a massive reduction of these CII assets in the form of *moneys* (-UAH 19.33 mln).

Among other significant changes broadening of the share of “*other*” securities within the assets of close-end CII and, as a result, of all non-venture funds, should be mentioned.

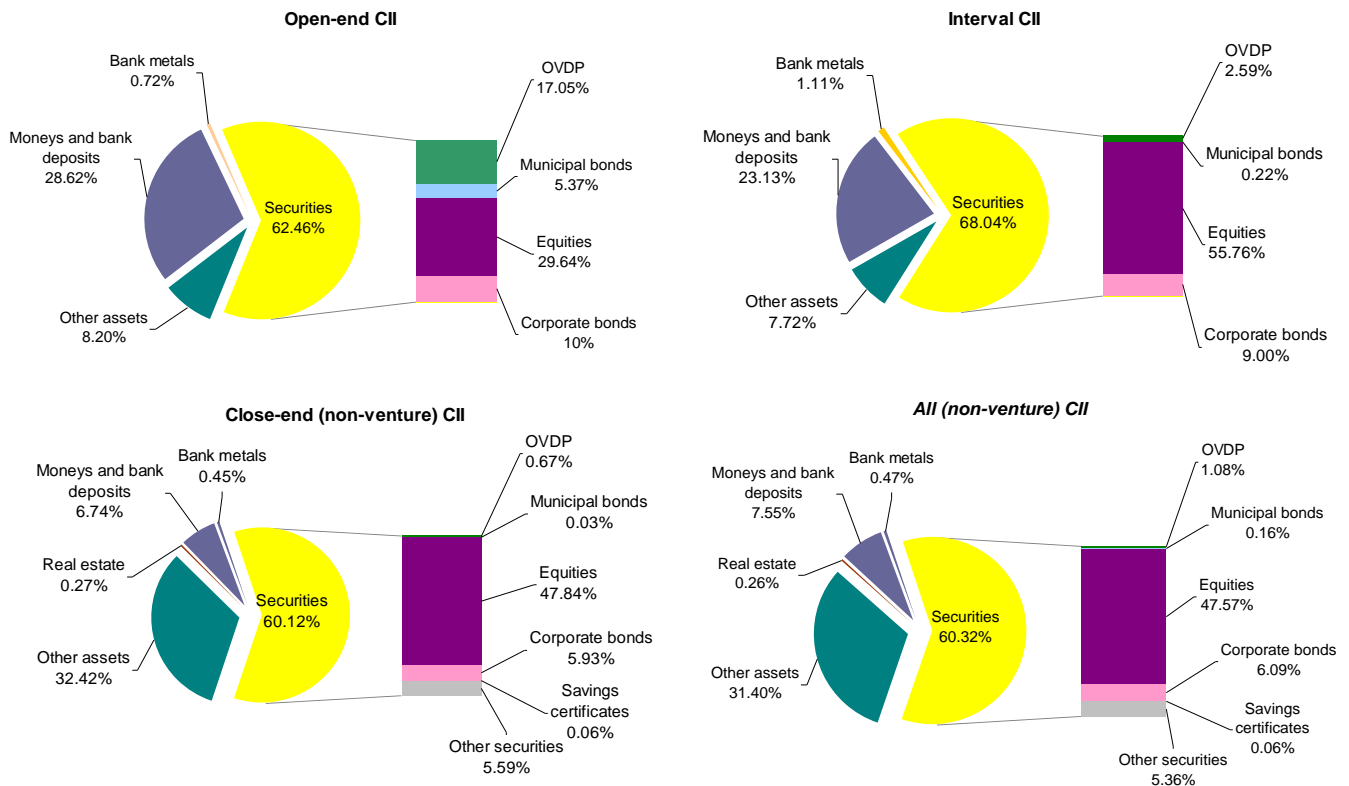


Chart 10. Non-venture CII asset structure, by the types of funds as of 31.12.2011

**During an entire year 2011**, with stock indexes' drawdown reaching 40-45%, the securities' share in non-venture CII went 11.29 p.p. down (from 71.61%), although in interval ones – went 0.56 p.p. up (from 67.47%). In venture funds the securities' share decrease reached 4.05 p.p. (35.28% as of 31.12.2010).

In terms of relative value, the non-venture segment's investments into equities decreased by 7.78 p.p. (from 55.34%), whilst in the interval funds - grew by 1.86% (from 53.91%). The share of equities within the assets of non-venture CII remained virtually unchanged over year (-0.22 p.p.).

The key changes in the structure of the aggregate investment portfolios of different CII types in Q4 2011 are presented below.

#### Open-end funds

Increase of the value of investments into:

- equities – from 25.54% to 29.64%;
- corporate bonds – from 10.16% to 10.39%;
- bank metals – from 0.55% to 0.72%;

Decrease:

- moneys and bank deposits – from 31.79% to 28.62%;
- internal state loan bonds – from 17.49% to 17.05%;
- local loan bonds – from 5.82% to 5.37%;



**Interval funds***Increase:*

- equities – from 52.29% to 55.76%;
- “other” assets<sup>1</sup> – from 7.59% to 52.72%;
- internal state loan bonds – from 2.56% to 2.59%;

*Decrease:*

- moneys and bank deposits – from 25.99% to 23.13%;
- local loan bonds – from 0.62% to 0.22%;
- corporate bonds – from 9.35% to 9.00%;

**Close-end (non-venture) funds***Increase:*

- “other” securities<sup>2</sup> – from 2.96% to 5.59%;
- moneys and bank deposits – from 6.05% to 6.74%;
- corporate bonds – from 5.56% to 5.93%;

*Decrease:*

- equities – from 49.45% to 47.84%;
- internal state loan bonds – from 1.40% to 0.67%;
- “other assets – from 33.68% to 32.42%.

The slump of the share and the amount of moneys in the open-end funds’ sector was natural after their considerable growth in Q3 and a massive outflow of capital from the sector, which has been mentioned above. Therefore, the liquidity that had been built up during the stock market fall of the preceding quarter, in Q4 was directed at settlements with investors which were actively exiting the sector.

Naturally, the dynamics of the **venture CII** asset structure was different from the changes in non-venture funds, though, in some aspects, similar to the one of the close-end type funds. In Q4 2011, the share of *equities* in these funds went 3.79 p.p. down, almost to 31% (Chart 11), and an aggregate value of these assets decreased by UAH 2 128.46 mln, among other, into equities – by UAH 1 522.16 mln.

The asset growth in the venture CII during Q4 was ensured by increases of investments into “*other*” assets (+UAH 7 899.18 mln), which resulted in the key asset of this sector broadening its share up to almost 63%.

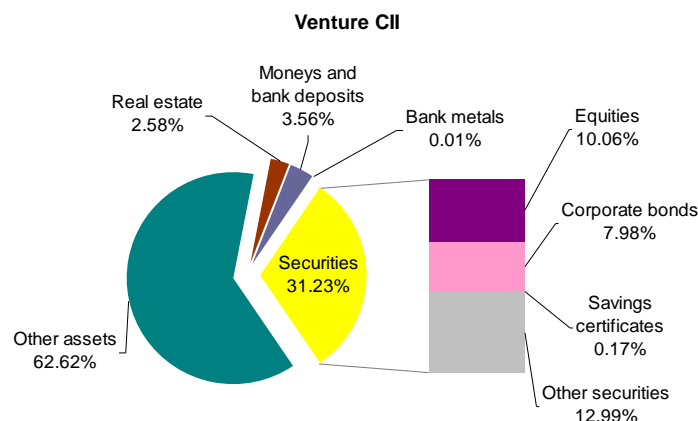


Chart 11. Venture CII asset structure as of 31.12.2011

All in all, the key changes in the structure of the aggregate venture CII portfolio were as follows:

*Increase:*

- “other” assets – from 59.03% to 62.62%;

<sup>1</sup> “Other” assets include corporate rights in the forms other than securities, as well as loans to the companies in the capital of which a stake is owned by the CII.

<sup>2</sup> Among “other” securities in close-end CII there are promissory notes, external state loan bonds; and in venture CII – also mortgage securities and derivatives (including option certificates).



- moneys and bank deposits – from 3.34% to 3.56%;
- savings certificates – from 0.02% to 0.17%;

Decrease:

- equities – from 12.06% to 10.06%;
- corporate bonds – from 8.29% to 7.98%;
- “other securities” – from 14.64% to 12.99%.

In Q4, unlike in Q1-3 2011, promissory notes were **the greatest, by an aggregate value, type of securities** into which CII moneys were invested. The total amount of CII moneys invested thereto at 31.12.2011 reached UAH 17 514.09 mln (+UAH 1 483.37 mln), and their share within the aggregate securities market instruments' portfolio of all funds grew from 35.75% to 39.52% (Table 5).

Equities, which yielded precedence to promissory notes, as of 2011 end were present in the CII portfolios in amount UAH 16 322.32 mln, which was UAH 1 895.03 mln less compared to Q3. Their respective share decreased from 40.63% to 36.83%.

The amount of investments into OVDP lowered by UAH 190.23 mln and their share finally narrowed from 0.69% to 0.27%. In the meanwhile, the amount of investments into savings certificates grew by UAH 160.99 mln, resulting in their share increase from 0.08% to 0.45%.

Table 5. Value breakdown of CII aggregate portfolio, by the types of instruments, as of 31.12.2011

Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Promissory notes	17 514 090 602	39.52%
Equities	16 322 316 353	36.83%
Corporate bonds	9 783 641 301	22.07%
Mortgage securities	336 018 325	0.76%
Savings certificates	197 887 500	0.45%
Internal state loan bonds	120 966 788	0.27%
Municipal bonds	40 630 293	0.09%
Other	5 496 590	0.01%
<b>Total</b>	<b>44 321 047 751</b>	<b>100.00%</b>

**Non-venture funds** as of 31.12.2011 held most of their assets in equities, despite a decrease of these investments' amount to UAH 4 743.79 mln. The share of equities within an aggregate securities portfolio of open-end, interval and close-end funds narrowed from 82.93% to 78.86% (Table 6).

Table 6. Value breakdown of non-venture CII aggregate portfolio, by the types of instruments, as of 31.12.2011

Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	4 743 787 437	78.86%
Corporate bonds	607 517 901	10.10%
Promissory notes	533 819 446	8.87%
Internal state loan bonds	107 648 248	1.79%
Municipal bonds	16 056 001	0.27%
Savings certificates	5 887 500	0.10%
External state loan bonds	794 570	0.01%
<b>Total</b>	<b>6 015 511 103</b>	<b>100.00%</b>

In Q4, promissory notes and mortgage securities, which had led during an entire year 2011, appeared to be **most popular securities by number of CII** holding them within their assets. TOP-10 once again included government bonds (interest-bearing bearer – 127 funds after 210 in Q3, registered – 5 CII, non-interest-bearing bearer – 1 funds) and equities from the first tier of listing (Table 7).



Mortgage securities and promissory notes, as well as government bonds (interest-bearing bearer – 210 funds, non-interest-bearing bearer - 12, registered – 11) and Ukrainian equities from the first tier of listing were **most popular securities by their presence** in the assets of CII

The first and the second places were once again shared, having replaced one another, the promissory notes of LLC “BVK Company “Fedorchenko” (316 CII) and the mortgage securities of LLC “Exco-Plus” (305 CII).

The equities of PJSC “MC “Azovstal” exited TOP-10 (101 fund).

Table 7. Most popular securities by presence in CII portfolios as of 31.12.2011

No	Security type	Category	Issuer's name	Number of CII holding the security in their portfolios
1	Promissory notes	common	LLC "BVK Company "Fedorchenko"	316
2	Mortgage securities	mortgage	LLC "Exco-Plus"	305
3	Promissory notes	common	LLC "Zhytloprombud"	253
4	Promissory notes	common	LLC "Kyiv Wholesale Market"	200
5	Promissory notes	common	PJSC "Ukrainian Innovation and Financial Company"	176
6	Promissory notes	common	LLC "City-State"	133
7	Internal state loan bonds	interest-bearing bearer	Cabinet of Ministers of Ukraine	127
8	Equities	common registered	PJSC "Tsentrnergo"	113
9	Equities	common registered	OJSC "Motor Sich"	109
10	Promissory notes	common	OJSC "Kharkiv Ball Bearing Plant"	107

The list of the most popular securities in the portfolios of **non-venture CII** in Q4 2011 once again remained unchanged (Table 8). Interest bearing bearer OVDP were present in the assets of 116 funds (in Q3 – 98), registered – 5, and non-interest bearing bearer – 1.

On the TOP-10, the greatest decrease was observed in the number of funds that invested into the equities of OJSC “Yasynivsky By-Product Coke Plant” (from 63 to 56 funds).

Table 8. Most popular securities by presence in non-venture CII portfolios as of 31.12.2011

No	Security type	Category	Issuer's name	Number of CII holding the security in their portfolios
1	Internal state loan bonds	interest-bearing bearer	Cabinet of Ministers of Ukraine	116
2	Equities	common registered	PJSC "Tsentrnergo"	85
3	Equities	common registered	PJSC "Motor-Sich"	83
4	Equities	common registered	PJSC "MC "Azovstal"	75
5	Equities	common registered	OJSC "Alchevsky Metallurgical Works"	65
6	Equities	common registered	PJSC "Avdiyivsky By-Product Coke Plant"	64
7	Equities	common registered	PJSC "Donbasenergo"	61
8	Equities	common registered	OJSC "Stakhanovsky Car-Repair Works"	57
8	Equities	common registered	PJSC "Kriukivsky Wagon-Building Works"	57
9	Equities	common registered	OJSC "Yasynivsky By-Product Coke Plant"	56
10	Equities	common registered	OJSC "Poltavsky GZK"	54

Therefore, the industry structure of the instruments most popular with CII did not undergo important changes during Q3-4 2011. The construction industry and the government finance kept the leadership among all the types and categories of funds, whilst among the non-venture ones other leaders included the power generation, machine building, metallurgy, and by-product coke industry.

Continuing the tendency of preceding quarters, the presence of banks' securities within funds' portfolios continued to decrease: the equities of PJSC “Ukrsotsbank” were held by 36 non-venture CII (in Q3 – by 39), and among all CII – by 52 funds (versus 83); and the equities of JSC “Raiffeisen Bank Aval” – by 32 non-venture funds (in Q3 – by 37), and among all CII – by 38 funds (versus 64).



By aggregate value within investment funds' assets in Q4 2011, most popular were the promissory notes of LLC "WIZARD INVEST". They appeared within CII assets for the first time, with the amount of investments thereto reaching UAH 1 781.72 mln (Table 9). These securities were held in the portfolios of 34 venture funds.

The equities of JSC "MNPК "VESTA" went down to the second place, although the value of investments into them grew by UAH 37.68 mln to UAH 1 369.67 mln. They were held in the assets of four CII (2 venture ones).

All in all, four new instruments joined TOP-10, among which were the promissory notes of LLC "FOZZY-FOOD" (acquired by 36 venture CII) and LLC "TZhK "Kyivsky" (25 venture CII), as well as the bonds of PrJSC "NEO VITA" (5 venture CII). The equities of OJSC "Avanguardinvest", which had been 4<sup>th</sup> by the volume of investments in Q3 (and 3<sup>rd</sup> among non-venture CII), were no longer present in CII assets.

Therefore, the construction remained among the most popular industries, by volumes of investments thereto as well, and the trade added.

Table 9. Most popular securities by aggregate value in CII portfolios as of 31.12.2011

No	Security type	Category	Issuer's name	Value of securities within CII assets, UAH
1	Promissory notes	common	LLC "WIZARD INVEST"	1 781 715 500
2	Equities	common registered	JSC "MNPК "VESTA"	1 369 670 400
3	Promissory notes	common	LLC "Stanislavska Trading Company"	916 133 000
4	Equities	common registered	OJSC "Lebedynska Spetsializovana Colona No.11"	574 270 665
5	Equities	common registered	PrJSC "City Investments"	534 710 131
6	Equities	common registered	PrJSC "OBK "Ofal"	531 705 865
7	Promissory notes	common	PJSC "Ukrainian Innovation and Financial Company"	515 717 256
8	Promissory notes	common	LLC "FOZZY-FOOD"	500 028 228
9	Promissory notes	common	LLC "TZhK "Kyivsky"	460 408 740
10	Corporate bonds	special purpose registered	PrJSC "NEO VITA"	449 119 202

Among the major investments of *non-venture* funds in Q4 appeared three new instruments: the equities of PJSC "DOMINANTA-COLECT", PJSC "Experimental Construction Equipment Integrated Plant" and PJSC "Yasna Poliana" (Table 10).

In the meanwhile, among the securities that exited TOP-10 were OVDP (interest-bearing bearer), in which funds held UAH 99.74 mln (-UAH 67.23 mln compared to Q3).

The equities of JSC "MNPК "VESTA" remained the leader of these CII by investment volume (UAH 1 009.69 mln), with the amount of investments thereto remaining virtually unchanged (-UAH 0.38 mln).

Table 10. Most popular securities by aggregate value in non-venture CII portfolios as of 31.12.2011

No	Security type	Category	Issuer's name	Value of securities within CII assets, UAH
1	Equities	common registered	JSC "MNPК "VESTA"	1 009 693 650
2	Equities	common registered	OJSC "Lebedynska Spetsializovana Colona No.11"	206 929 650
3	Equities	common registered	PJSC "GPI-Invest"	149 999 702
4	Corporate bonds	interest-bearing registered	PrJSC "Lagoda" Confectionary"	135 000 000
5	Equities	common registered	PJSC "DOMINANTA-COLECT"	128 000 000
6	Corporate bonds	interest-bearing registered	LLC "Company Rodovid"	120 387 602
7	Equities	common registered	PJSC "Leninska Kuznia" Works"	115 126 221
8	Equities	common registered	PrJSC "Intercorn Corn Processing Industry"	108 167 073
9	Equities	common registered	PJSC "Experimental Construction Equipment Integrated Plant"	107 558 660
10	Equities	common registered	PJSC "Yasna Poliana"	106 999 900

Thus, the concentration of CII investments into securities in Q4 2011 weakened: an aggregate value of TOP-10 instruments held by all funds grew by UAH 3.53 mln (+0.05%) to UAH 7 633.48 mln, as the assets increased by UAH 7 922.56 mln (+6.67%). A similar trend was observed in case of the non-venture funds – the amount invested into TOP-10 lowered by UAH 449.83 mln (-17.05%) to UAH 2 187.86 mln as these CII assets decreased by UAH 244.22 mln (-2.41%).



## 6. Non-venture CII Rate of Return

In the conditions of differently directed dynamics of the key Ukrainian indexes in Q4 2011 (-5%/+1.1%), all in all, CII generated moderate returns for their participants (between -1.7% in open-end and up to +0.4% in close-end funds on average). Interval CII demonstrated average rate of return close to the one of open-end ones – -1.5% (Chart 12).

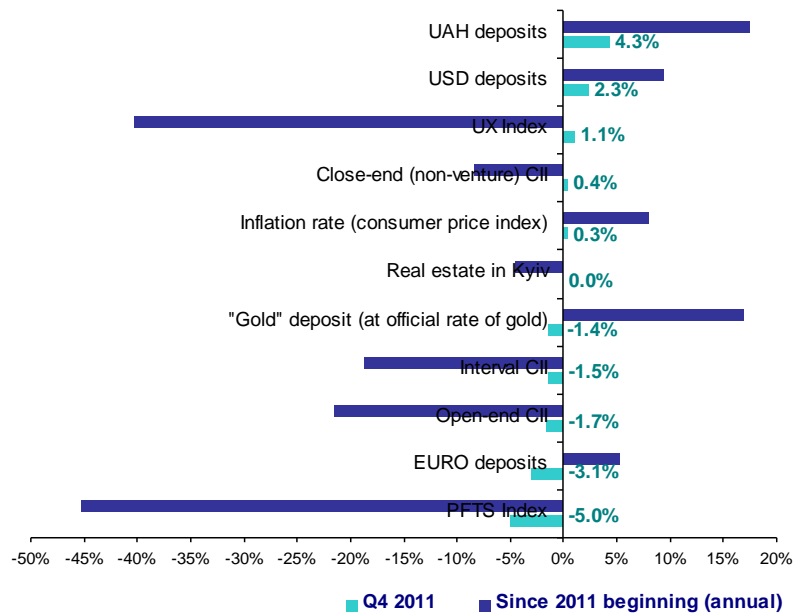


Chart 12. Average rates of return – non-venture CII, deposits, equity indexes and inflation rate in Q4 and in 2011<sup>3</sup>

In Q4, the number of funds that generated positive performance results increased from 11 out of 40 (after 6 out of 39 in Q3) among open-end, 13 out of 36 (after 6 out of 38) among interval and 59 out of 140 (after 40 out of 138) among close-end CII.

At that, average quarterly losses of *open-end funds* lowered by 12 p.p. (from -13.6% in Q3), and the range of the rates of return was between -11.09% and +8.10%.

*Interval and close-end CII* improved their average performance result by 8 p.p. (from -9.7% and -7.6% respectively), and individual funds' rates of return ranged between -12.8% and 11.5% (*interval*) and between -75.1% and +98.5% (*close-end*).

Average rates of return generated by investment funds in 2011 were negative (between -21.5% in open-end and -18.7% in interval, and up to -8.3% in close-end ones), but more than twice higher than the equity indexes' indicators (-45.2%/-40.3%).

The leader of Q2-3 – *gold deposits* – in Q4 were loss-making (-1.4%), although in annual terms an estimated rate of return on these investments turned out to be one of the highest among the most popular investment directions (+16.91%).

The rate of return on *Euro deposits*, which in Q4 was again negative (-3.1%), lowered the annual result to +5.33%.

The greatest increase of investments' value in Q4, just as in 2011 on the whole, was provided for by annual bank deposits in UAH (+4.3% and 17.45% respectively). That was conditioned by an increase of the value of resources in the financial markets and banks' need in attraction of moneys from the population, which caused growth of the rates on deposits by 2011 end, particularly in December.

<sup>3</sup> CII rates of return are calculated based on the reporting data for Q4 2011 (40 open-end, 36 interval and 140 close-end CII) - see Ranking of the rates of return of open-end, interval and close-end funds in 2011. The inflation rate provided is based on the State Statistics Committee data (Consumer price indexes – 2011). Return on real estate is calculated based on Kyiv real estate value index (Source: <http://www.blagovest.ua>).



## 7. CII NAV Breakdown by the Types of Investors

Traditionally, as of 2011 end, *Ukrainian companies* held most of moneys in CII compared to other categories of contributors. Their share in funds narrowed, just in Q3 (from 81.22% to 81.00%) (Table 11). That concerned not only venture, but other close-end CII as well. In open-end and interval funds *legal entities-residents* remained second large investor category, at that, in Q4 their share continued to grow compared to the other categories.

The share of *non-residents* in CII as of 31.12.2011 remained virtually unchanged, despite its decrease in Q4 in interval and venture funds.

The contributions of the *citizens of Ukraine* grew both in monetary terms, as well as in relation to the rest of investor categories (from 3.98% to 4.20%), but solely owing to venture funds. In open-end CII their share decreased most, just as in Q3. In non-venture CII on the whole it decreased from 26.89% to 25.99%.

Table 11. CII NAV breakdown by the types of investors as of 31.12.2011, % of NAV

Funds	Legal entities		Natural persons	
	residents	non-residents	residents	non-residents
Open-end	35.63%	13.69%	50.44%	0.25%
Interval	48.42%	2.11%	49.39%	0.08%
Close-end (non-venture)	65.44%	9.57%	24.85%	0.14%
<b>All (non-venture)</b>	<b>64.35%</b>	<b>9.52%</b>	<b>25.99%</b>	<b>0.14%</b>
Venture	82.45%	15.19%	2.30%	0.05%
<b>All (including venture)</b>	<b>81.00%</b>	<b>14.74%</b>	<b>4.20%</b>	<b>0.06%</b>

In *open-end CII* in Q4 2011 *natural persons-residents* held 50.44% (after 57.49% in Q3), which reflected these investors' exit from the funds in connection with taking profits after a short and quick mid-quarter rise. An aggregate value of investments of the citizens of Ukraine into these CII decreased by UAH 37 mln – almost identically to the preceding quarter (-UAH 39 mln). In the meanwhile, *legal entities-residents* by the end of 2011 grew their investments into open-end CII (+UAH 3.6 mln), which, coupled with a drop in the value of investments belonging to other investor categories, broadened their share in these funds from 29.31% to 35.63%.

The presence of *foreigners* in monetary terms declined by UAH 1.1 mln in case of companies and by UAH 2.1 mln in case of natural persons, and in relative terms – grew from 13.21% to 13.93% in both categories, though the share of foreign citizens narrowed from 1.00% to 0.25%.

In *interval CII* the major share as of 2011 end was also held by *natural persons-residents* (49.39% after 50.94% in Q3). Their amount of their investments decreased almost identically with the aggregate NAV of this type of funds (-UAH 6.8 mln after -UAH 17 mln over Q3).

Only the investments of *legal entities-residents* in interval CII increased, and their share grew from 46.34% to 48.42%.

In *close-end non-venture CII* the leadership by the volume of contributions belonged to *legal entities-residents*, though due to a decrease of these funds' aggregate NAV by UAH 388.4 mln during the quarter their investments dropped by UAH 468.6 mln, which narrowed their share from 67.30% to 65.44%.

The amount of investments into these funds on the part of *Ukrainian citizens* also significantly declined – by UAH 175 mln, and their respective share – from 25.50% to 24.85%. At that, *companies – non-residents* grew their investments by UAH 183.2 mln, which finally provided for their share increase from 7.07% to 9.57% in close-end funds and from 7.12% to 9.52% in all non-venture CII on the whole.

In *venture CII* *legal entities-residents* as of 31.12.2011 held 82.45% of NAV, in other words, their share compared to Q3 somewhat narrowed (82.75%). An increase of the value of investments of *natural persons-residents* (+UAH 774.7 mln) ensured an increase of their share from 1.69% to 2.30%.

Thus, in Q4, most active investors that were expanding contributions into open-end CII were national companies, and into close end CII – foreign companies. Citizens of Ukraine, as well as companies – non-residents continued investing into venture funds more actively compared to other investor categories.



## **8. Resume**

On the whole, 2011 was not a favorable year for investments into public investment funds, as their rates of return closely correlate with stock market dynamics. In Ukraine, just as in neighboring countries, as well as well-developed markets, this year passed in downtrend. The year was full of events of global impact that were giving important signals to the stock markets of certain countries, as well as affected international economic relations, and were mostly of negative nature.

Around the world and in Europe in particular<sup>4</sup>, all funds successfully attracted new investments in the first half year. However, starting from Q3, along with a quickly growing tension in the financial and economic area around the globe owing to the impairing global growth prospects and European debt crisis, an outflow of capital started, particularly from equity funds and partially from balanced and bond funds. Investors' risk appetite during the year changed considerably as stock market assets were getting more attractive when the prices on them would go down significantly, but during the second half year they more often preferred "safe harbors" and avoided investments into equities.

The changes below could be regarded as **the key trends of Q4** and year 2011 in the market of collective investment institutions.

As the number of AMC, as well as of operating and recognized CII of interval and close-end types in Q4 decreased, the industry's **assets and NAV** continued to grow (+7%), though solely owing to the venture segment. As of 31.12.2011, the total net assets reached UAH 112 691 mln, 92% of which belonged to venture CII.

In 2011, net assets increased in close-end funds of both sectors, in particular, the venture sector growth by 19.9% ensured the annual growth of an entire market by almost 19% (+UAH 17 950 mln).

**Capital outflow** in amount UAH 37 mln from open-end CII in Q4 resulted in annual losses in amount UAH 24.5 mln. On the whole, investor contributions and withdrawals of moneys from funds in 2011, just as in 2010, determined the dynamics of the net assets of the open-end CII sector. At that, as before, these movements were due to individual funds, the scale of capital movements in which most affected an overall result.

Due to an outflow from open-end and interval funds in Q4, within the **structure of the aggregate portfolios** of these CII types a major decrease of the share of moneys on bank accounts and, as a result, a notable increase of the share of equities took place, which was contrary to the stock market tendencies. In close-end funds the share of equities narrowed, and in venture funds, in particular, broadening of the share of investments into "other assets" occurred.

As for the investments into CII of different **investor categories**, in Q4 an increase of the contributions of Ukrainian legal entities into open-end funds, and natural persons – into venture ones should be noted.

**Funds' rates of return** in Q4 significantly increased compared to those of Q3, which resulted from the exchange market indexes' trend leveling-off. Open-end funds earned between -11% and +8%, at that, 11 of them provided for investment value increase; interval funds demonstrated between -13% and +11%, with 13 funds generating positive performance results, and close-end funds – between -75% to +98% (59 above zero).

Therefore, in 2011 in Ukraine, just as in the whole world, public CII, particularly those with aggressive investment strategies, incurred significant losses and were getting unpopular with investors. At the same time, some funds with moderate and conservative strategies were more efficient in preserving their contributors' investments' value during that period, and some even managed to ensure this value growth.

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### **Additional information on CII in the UAIB website:**

- [Monthly Analytical reviews of publicly placed investment funds:](#)
- **Rankings:**
  - [CII – by fund type](#)
  - [CII \(publicly placed diversified\) – by fund class](#)

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<sup>4</sup> See [European Quarterly Statistics \(Q4 2011 & Y-E 2011\) by EFAMA](#)