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1. The Stock Market

Q2 2013 became a period of particular lack of stability in the *global stock markets*. Stock market indicators of a number of leading world economies demonstrated absolutely different behavior. Japanese equities in April – June were growing rapidly, and certain Western European and US ones continued going slowly, whilst British – demonstrated negative performance, and in case of Russian indexes decline that had started in the preceding quarter would not stop.

Simultaneously, almost everywhere an increase of volatility was observed. In the meantime, foreign investors continued searching for attractive investment opportunities, having an excess liquidity, which supported markets, though by quarter end the market dynamics changed.

The success of Japan, where recovery had started back by 2012 end, was due to investors' confidence in the efficiency of the government policy on "flooding" financial market with excessive liquidity, following US example. That promoted rapid growth of indexes in the first half of Q2. However, afterwards profit taking occurred and, respectively, a market decline, as investors had expected even more massive "injections". Nevertheless, situation quickly stabilized, and the key index of the state for the third time in a row ended quarter as a world leader, having provided for a two-digit growth (above 10%) (Table 1, Chart 1).

Table 1.

National markets' stock indexes' dynamics in Q2 2013.*

Indexes	31.03.2013	30.06.2013	Q2 2013 change	Annual change	2013 YTD change
NIKKEI 225 (Japan)	12 397.91	13 677.32	10.32%	51.86%	31.57%
S&P 500 (USA)	1 569.19	1 606.28	2.36%	17.92%	14.54%
DJIA (USA)	14 578.54	14 909.60	2.27%	15.76%	15.24%
DAX (Germany)	7 795.31	7 959.22	2.10%	24.05%	4.56%
CAC 40 (France)	3 731.42	3 738.91	0.20%	16.96%	3.28%
FTSE 100 (Great Britain)	6 411.74	6 215.47	-3.06%	11.57%	4.90%
UX (Ukraine)	903.42	866.47	-4.09%	-10.40%	-8.85%
WSE WIG 20 (Poland)	2 370.07	2 245.64	-5.25%	-1.60%	-13.06%
PFTS (Ukraine)	328.63	309.78	-5.74%	-14.50%	-5.75%
HANG SENG (Hong Kong)	22 299.63	20 803.29	-6.71%	7.00%	-8.22%
MICEX (Russia)	1 438.57	1 330.46	-7.52%	-4.11%	-9.78%
SHANGHAI SE COMPOSITE (China)	2 236.62	1 979.21	-11.51%	-11.06%	-11.38%
RTS (Russia)	1 460.04	1 275.44	-12.64%	-5.56%	-16.47%

* Based on the data of exchanges and Bloomberg Agency

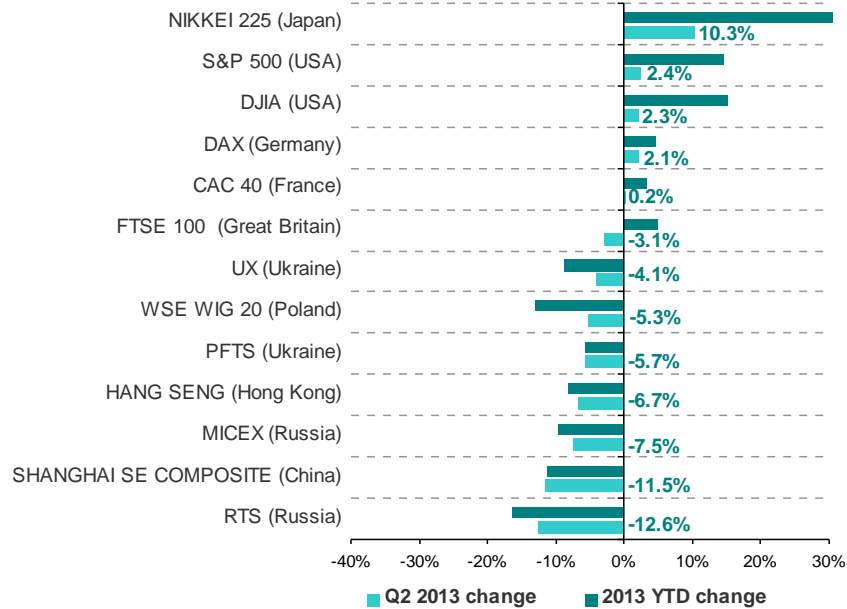


Chart 1. National markets' stock indexes' dynamics in Q2 2013

In the USA, equities also retraced only by May end – June, after a non-stop seven-month-long growth, due to the fears of winding up by the FRS its “quantitative easing” program. Among the reasons behind such expectations was, among other, positive macro statistics on unemployment. Finally, in Q2 US equities renewed their five-year old records.

Western European markets remained under prevailing pressure of negative factors, such as potential cutting down of the monetary support to the key global economies by central banks, weak dynamics of the Euro zone GDP with negative values in a number of states, as well as slowing down of growth in China. It is only the key German index that demonstrated certain advancement – owing to a better economic growth pace and a growing confidence of consumers in the state. The Great Britain closed the quarter with a notable decline of the equity index, as GDP dynamics was weak.

Blue chips in Russia continued decline as prices on energy sources were going down and capital outflow from developing countries was observed. The indexes in Poland also sagged again.

Quarterly result of the main global stock market indexes in April-June 2013 comprised between -12.6% in Russia and -11.5% in China, and up to +2.4% in the USA and +10.3% in Japan.

Ukrainian indexes in Q2 2013 demonstrated a moderate growth accompanied by volatility decrease. However, as a result of March downfall owing to Cyprus crisis, which deepened in the beginning of April, key national stock market indicators went down during the quarter: UX index – by 4.1%, and PFTS index – by 5.7%.

At that, trading volumes in the stock exchanges of Ukraine¹ in aggregate grew significantly – by UAH 21.2 bln. (+27.2%) to UAH 99.3 bln. (not taking into account the derivatives' market – by UAH 17.7 bln. (+23.2%) to UAH 94.1 bln. That, however, occurred mainly owing to government securities. Corporate bonds were also popular with investors, according the data of SEPE (+UAH 870.1 mln, +190.3%) and UX (+UAH 430.1 mln., +58.1%). In meantime, the volumes of trades in these instruments on PFTS decreased (-UAH 1 293.8 mln. (-15.1%)). As for equity trading volumes, on SEPE and PFTS they grew considerably (+UAH 879 mln., +305.6% and +UAH 314.0 mln., +65.2% respectively), whilst on UX they went on declining rapidly (-UAH mln., -34.4%), having yielded the precedence to corporate bonds.

Thus, investors became more active in the Ukrainian organized stock market, with trading volumes on the whole going back to the level of Q4 2012, though this growth was mainly due to government debt placement.

¹ UX, SEPE and PFTS are meant here. Other exchanges are not taken into account.



2. The Number of AMC and CII

All in all, the tendencies in the asset management market from the viewpoint of the number of its participants remained unchanged in Q2 2013. The quantity of asset management companies once again declined, as more companies exited from the market than entered the market (-3 after -5 in Q1). According to UAIB, as of 30.06.2013 there were 345 AMC in operation in Ukraine (Chart 2).

The number of registered CII grew up to 1580 funds. The said growth slowed down compared to Q1: +10 funds compared to +26. In the meantime, concentration in CII market continued to increase: as of 30.06.2013 one AMC managed on average 4.58 funds (after 4.51 as of 31.03.2013).

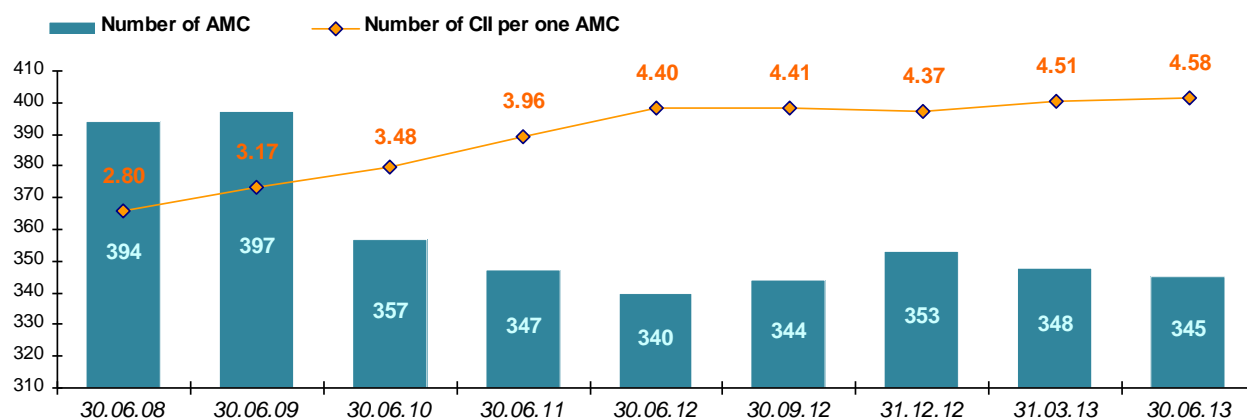


Chart 2. Dynamics of the number of AMC and CII per one AMC in Q2 2008-2013 and during the year

The number of CII that reached compliance with the standard to minimal asset volume, in Q2, just as in Q1, decreased by 9 and as of 30.06.2013 comprised 1204 funds. That was primarily due to the negative dynamics of corporate CII (-9), in particular, closed-end non-diversified ones (-8) (Table 2).

The total number of unit funds remained unchanged. There became one interval and one closed-end non-diversified fund less, and venture CII added two funds. All in all, 12 venture CII reached compliance with the standard in Q2.

In aggregate, the number funds that were yet to reach compliance with the standard within all registered CII under AMC management as of 30.06.2013 grew to 120 funds (after 111 in Q1).

Table 2.

Dynamics of the number of CII that reached compliance with the standards, by the types, kinds, and legal forms of funds in Q2 2013

	Total	UIF					CIF		
		O*	*	CD*	CNN*	CV*	*	CNN*	CV*
30.06.2012	1179	42	38	13	41	805	2	119	119
31.12.2012	1222	41	38	13	45	829	2	110	144
31.03.2013	1213	42	38	11	48	826	1	108	139
30.06.2013	1204	42	37	11	47	828	2	100	137
Q2 2013 change	-9	0	-1	0	-1	2	1	-8	-2
	-0.7%	0.0%	-2.6%	0.0%	-2.1%	0.2%	100.0%	-7.4%	-1.4%
Annual change	25	0	-1	-2	6	23	0	-19	18
	2.1%	0.0%	-2.6%	-15.4%	14.6%	2.9%	0.0%	-16.0%	15.1%
2013 YTD change	-18	1	-1	-2	2	-1	0	-10	-7
	-1.5%	2.4%	-2.6%	-15.4%	4.4%	-0.1%	0.0%	-9.1%	-4.9%

*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

The number of CII with asset value below their minimal volume standard went down from 118 to 116 owing to closed-end, in particular, venture funds. Within those funds 18 were open-ended, 14 – interval,



26 – closed-end and 58 – venture ones. In relative terms, the worst situation was in the sector of open-ended CII – 45% (after 44% in Q1), as well as interval ones – 41% (after 38%). The share of venture funds below the normative, just as before, was a minimal one – about 6%.

The number of diversified publicly placed CII in Q2 2013 went down to 75 (as of 31.01.2013 – 79). According to the asset structure based classification², the number of hybrid funds grew from 7 to 8. In such way, this class left behind equity funds (Chart 3). The classes of equity funds (7) and “other funds” (59), in other words, such that did not meet the criteria to the classes of equity, bond and hybrid funds, lost two funds each. At that, in Q2 there were no CII that could be attributed to the class of bonds funds.

According to the retrospective data analyzed for the first time, money market funds for the second quarter in a row were represented by one CII only.

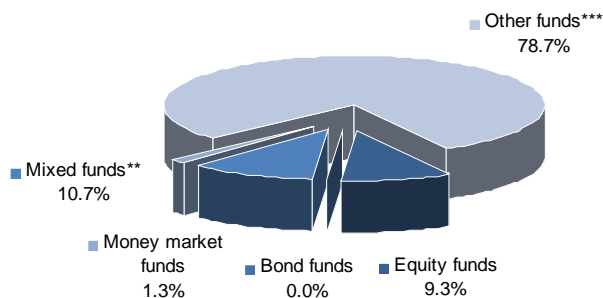


Chart 3. Diversified publicly placed CII, by the classes of funds as of 30.06.2013

3. The Regional Distribution of AMC and CII

The number of asset management market participants in Q2 2013 continued decreasing, now not only owing to the capital, but to Dnipropetrovsk and Kirovohrad regions as well. Specifically, whilst the number of AMC in Kyiv and region decreased from 348 to 345 (240 AMC), as 4 companies were terminated and 3 new companies were registered, in Dnipropetrovsk two AMC, and in Kirovohrad – one AMC were closed. In Luhansk one new asset management company was established (Chart. 4).



Chart 4. Regional distribution of AMC number as of 30.06.2013

² See Rankings “Diversified public CII – by asset classes” on UAB website: <http://www.uaib.com.ua>.



The share of Kyiv and region within the regional market distribution by the number of asset management companies remained virtually unchanged and comprised 69.6% compared to 69.3% in Q1.

Within *CII distribution by regions*, the share of Kyiv and region continued to grow throughout Q2 2013 – from 70.5% to 71.0%. The respective shares of other regions-leaders somewhat narrowed.

Finally, *regional distribution of CII assets under management* changed to the benefit of Kyiv and regions beyond the five leaders by asset volumes. In particular, the share of Kyiv broadened by 1.6 p.p. – from 74.5% to 76.1%, and of Dnipropetrovsk – narrowed by 1.3 p.p. – from 9.3% to 8.0% (Chart 5).

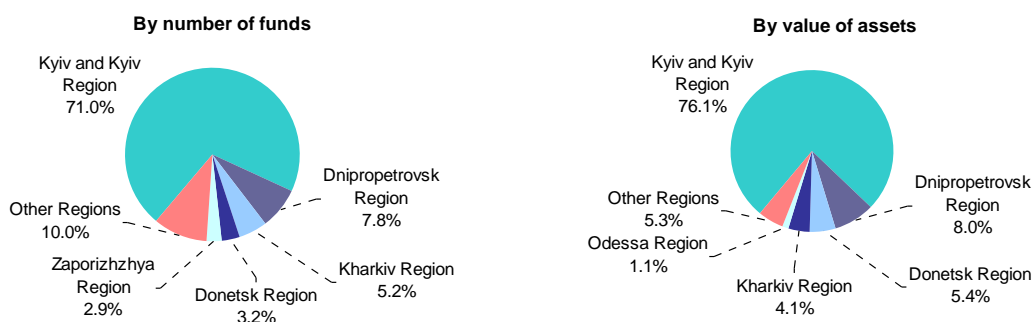


Chart 5. Regional distribution of CII by the number of CII and the value of their assets under management, as of 30.06.2013

4. The Asset and the Net Asset Value of CII

The stock market failure at Q2 start and its weak dynamics during all three months, as the situation in the economy of the state and the funds' business environment was getting more complex, prevented CII industry growth, though the venture sector strongly maintained an uptrend. That ensured a further increase of the aggregate assets under management, though other CII sectors incurred losses.

Another driver of the industry assets' decrease was a drop in the number of funds' reports filed with the UAIB (4 less compared to Q1), with liquidation of a number of CII in progress (see paragraph 2). At that, the quantity of the reports of open-ended and closed-end (non-venture) funds decreased by 1 and 8, and of interval and venture ones – increased by 2 and 3 accordingly.

As of 30.06.2013, **aggregate CII assets** reached UAH 164 052.39 mln. Quarterly growth notably accelerated compared to Q1 and comprised +UAH 5 724.66 mln. (+3.62%), and of venture CII – +UAH 6 414.03 mln. (+4.33%), with their assets reaching UAH154 542.74 mln. (Chart 6).

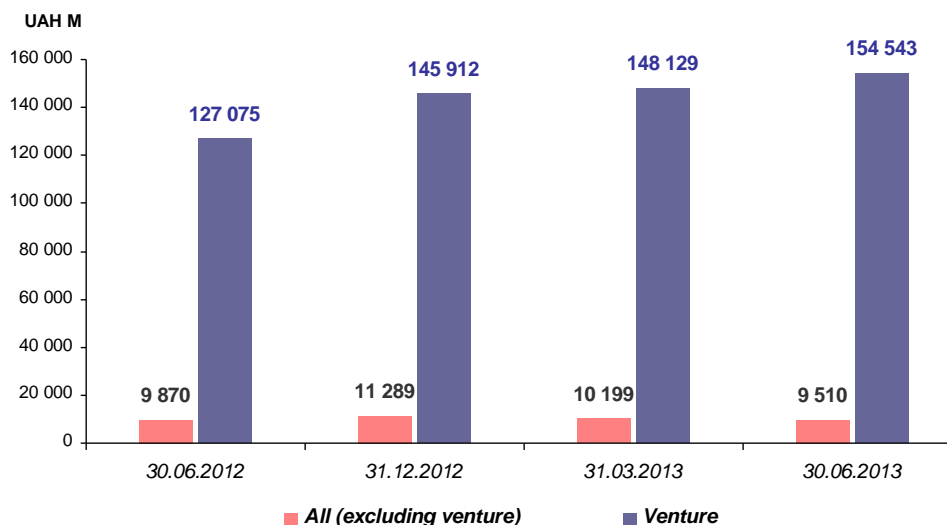


Chart 6. Dynamics of the asset value of CII in Q2 2012-2013



The net assets of CII in Q2, unlike in the preceding quarter, also increased – owing to venture funds, which partially can be explained by an increase of these CII number. As of 30.06.2013, all CII NAV reached UAH 145 588.36 mln. (+UAH 7 652.94 mln., +5.55%) (Table 3).

The venture sector NAV grew up to UAH 137 155.81 mln. (+UAH 8.322.40 mln., +6.46%). In such way, its net assets, just as those of the CII market on the whole, grew more than the total assets, which was due to a decrease of funds' liabilities.

Interval funds in Q2 2013 stopped the downtrend, though that occurred primarily to a greater quantity of reports filed in respect of these CII. The net asset value of the sector as of quarter end increased by 0.65% and comprised UAH 143.98 mln., in other words, just as previously, demonstrating the lowest result among CII sectors by the types of funds.

In the meantime, open-ended and closed-end non-venture funds in Q2 demonstrated NAV decline by 7.29% and 7.49% respectively. The NAV of open-ended funds as of 30.06.2013 comprised UAH 147.02 mln., and compared to Q1 2013 they demonstrated a five times greater net asset decrease. The NAV of closed-end non-venture funds went down to UAH 8 141.54 mln.

Table 3.

Dynamics of the NAV of CII, by the types of funds, in Q2 2012-2013, UAH mln.

Funds	30.06.2012	31.12.2012	31.03.2013	30.06.2013	Q2 2013 change	Annual change	2013 YTD change
Open-ended	186.03	160.54	158.58	147.02	-7.29%	-20.97%	-8.43%
Interval	168.53	156.00	143.05	143.98	0.65%	-14.57%	-7.70%
Closed-end (excluding venture)	8 884.58	9 445.63	8 800.37	8 141.54	-7.49%	-8.36%	-13.81%
All (excluding venture)	9 239.14	9 762.16	9 102.00	8 432.54	-7.36%	-8.73%	-13.62%
Venture	111 495.19	129 498.42	128 833.42	137 155.82	6.46%	23.02%	5.91%
All (venture included)	120 734.34	139 260.58	137 935.42	145 588.36	5.55%	20.59%	4.54%

Despite a considerable NAV decrease, open-ended funds managed to keep their market share, which as of 30.06.2013 remained at the level of 1.7% (Chart 7). The reason behind that was a similar pace of closed-end CII NAV decrease, which as of Q2 end reached 96.6% (after 96.7% in Q1). The sector of interval funds, the net assets of which grew during the quarter, unlike the total ones, added in weight from 1.6% to 1.7%.

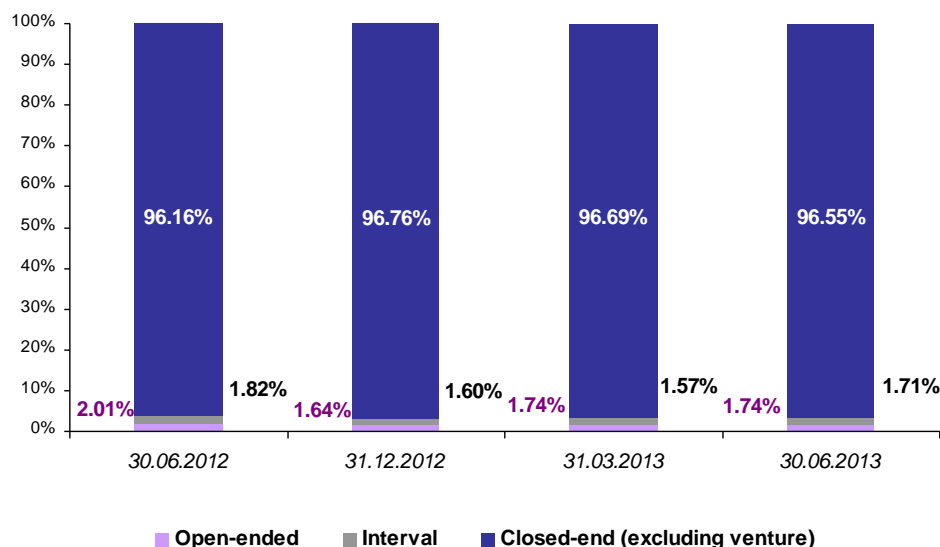


Chart 7. Dynamics of non-venture CII NAV breakdown by the types of funds in Q2 2012-2013



The share of CII market belonging to venture funds, whose NAV, as per reporting data, in Q2 2013 grew even faster than the total assets, went on expanding – from 93.4% to 94.2% (Chart 8).

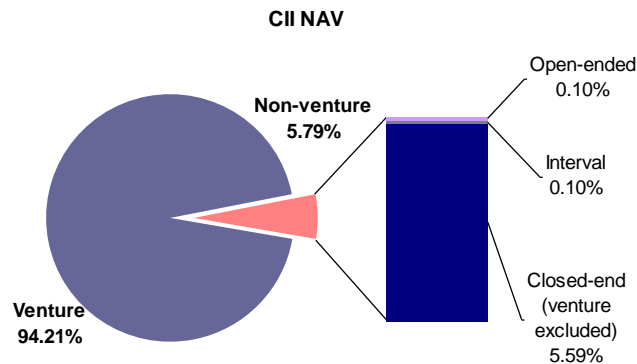


Chart 8. Distribution of CII NAV by the types of funds as of 30.06.2013

5. Net Capital Inflow/ Outflow in Open-ended CII

Q2 2013 faced a rapid acceleration of net capital outflow from open-ended CII, though it should be noted that during three months it was extremely uneven. In April, negative trend in the sector resumed, as the amount of withdrawals from funds exceeded the amount of contributions to them by UAH 3.9 mln.. All in all, zero investor capital movement was observed in May, with small and almost mutually offsetting inflows and outflows in funds that usually demonstrate most active investment dynamics. However, in June, the greatest over 15 month outflow occurred – in amount of almost UAH 8.5 mln. (Chart 9, Table 4). Major outflows traditionally took place owing to one or several funds, not depending on a particular investment strategy, and among leaders, as well as among outsiders, there were conservative, balanced and aggressive funds.

In the meantime, the quantity of open-ended CII that ensured additional capital inflow continued to grow (4-9 funds in April-June after 3-7 in January-March). During the quarter they attracted only UAH 1.26 mln. of net inflow (after 7.42 mln. in Q1). The number of funds with net outflow decreased every month – 13-21 after 17-23 in the preceding quarter.

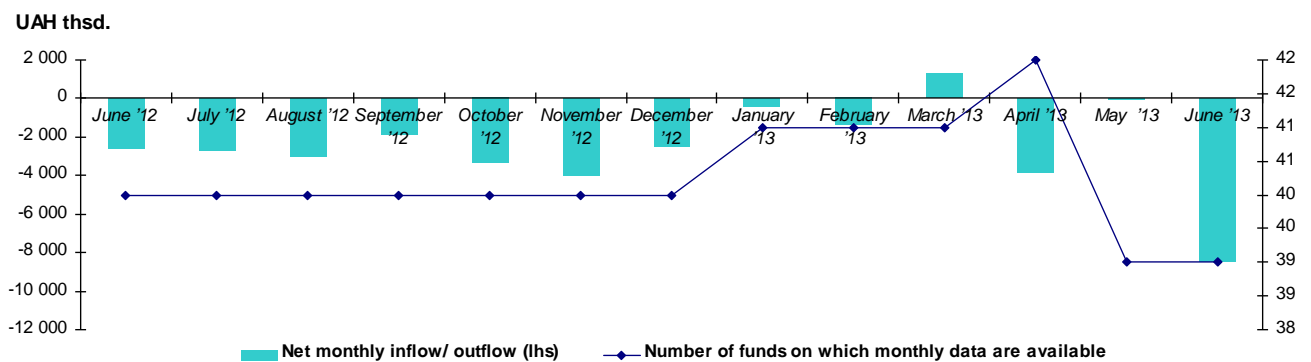


Chart 9. Monthly net inflow/ outflow of capital in open-ended CII in June 2012-2013 (based on daily data)



Table 4.

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

Period	Net monthly inflow/outflow	Number of funds on which monthly data are available
June '12	-2 579.38	40
July '12	-2 690.07	40
August '12	-3 024.80	40
September '12	-1 872.90	40
October '12	-3 333.35	40
November '12	-3 962.74	40
December '12	-2 531.93	40
January '13	-362.77	41
February '13	-1 391.73	41
March '13	1 297.12	41
April '13	-3 870.15	42
May '13	-70.31	39
June '13	-8 467.47	39

* Based on daily data

An aggregate net outflow from open-ended CII in Q2 2013 reached more than UAH 12 mln., which became the most significant figure during the last five quarters (Chart 10). Most likely, that demonstrated investors' fears as regards the market situation and the direction in which it was moving.

Withdrawals of capital from open-ended funds over year in Q2 grew by 6% (-UAH 30.28 mln. as of 30.06.2013 after -UAH 28.52 mln. as of 31.03.2013).

With a sideways trend prevailing the stock market and an intensifying capital outflow, the latter became the key driver of NAV change in open-ended CII in Q2. In such a way, it exceeded the decrease of the sector aggregate net assets (107%, after 23% in Q1). In annual terms, the contribution of the net outflow to the open-ended funds' NAV decrease grew from 60% to 78%.

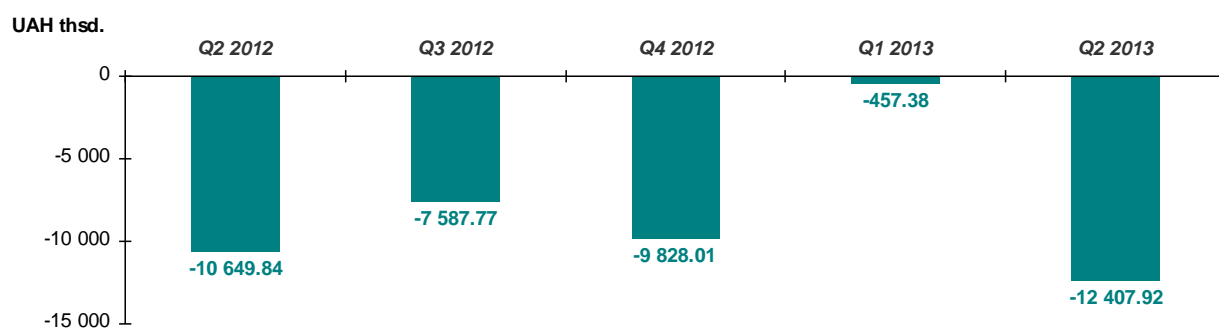


Chart 10. Net inflow/ outflow of capital in open-ended CII in Q2 2012-2013

A quick turn of the trend of capital movement in the sector of open-ended CII in Q2 2013 in Ukraine took place within the context of a global outflow from the financial markets of developing countries. Weakening dynamics of these countries' development, along with recovery observed in the economies of leading EU states and continuing growth in the US, conditioned capital outflow to well-developed European and US markets.

Furthermore, outflow was observed particularly by quarter end, mainly in money market funds and bond funds, which was due to a cyclic nature of operations of the former, as well as a start of the rates' increases on financial markets on the eve of excess liquidity cutting. In particular, the greatest demand was observed, and is expected to be observed, for equities and funds that invest primarily into them³.

³ See [EFAMA Investment Fund Industry Fact Sheet \(June\)](#).



6. The Investors of CII

In Q2 2013, institutional investors registered in Ukraine preserved their leadership by the volumes of investments into CII. Furthermore, unlike in Q1, the share of *legal entities – residents* within the aggregate NAV grew from 77.5% to 78.5%, though remained lower compared to the year start (80.0%). The amount of these investors' contributions over quarter increased by UAH 7 629.53 mln. (compared to – UAH 4 711.43 mln. in Q1) owing to the contributions made to venture funds (+UAH 7 946.83 mln.)

Natural persons-residents (+UAH 181.06 mln.) and *legal entities – non-residents* (+UAH 117.57 mln.) also made a notable contribution to the CII market NAV increase.

Different behavior of various investor categories in respect of CII in Q2 promoted further changes in the breakdown of market NAV by fund participants (Table 5, Chart 11).

Table 5.

CII NAV breakdown by the categories of investors as of 30.06.2013, % of NAV

Funds	Legal entities		Natural persons	
	residents	non-residents	residents	non-residents
Open-ended	42.70%	5.90%	51.18%	0.22%
Interval	55.55%	0.77%	43.61%	0.08%
Closed-end non-venture	64.12%	8.57%	27.11%	0.20%
All (non-venture)	63.60%	8.39%	27.81%	0.19%
Venture	79.46%	17.90%	2.60%	0.03%
All (venture included)	78.54%	17.35%	4.07%	0.04%

A relatively passive attitude of the *citizens of Ukraine* towards non-venture CII in Q2 resulted in narrowing of their share in all funds altogether from 4.2% to 4.1%. However, in view of considerably more active withdrawals of capital by national and foreign companies from open-ended and closed-end CII (with exception of venture ones), the share of the retail investors from Ukraine in non-venture funds continued to grow – from 27.4% to 27.8%.

Foreign investors, the dynamics of the contributions of which into venture funds in April – June was weaker compared to the one of the residents of Ukraine, and which probably most actively were withdrawing capital from open-ended CII, decreased their presence in all funds from 18.3% to 17.4% on the whole. However, their aggregate contributions into CII grew by UAH 117.18 mln. – solely due to foreign companies, as citizens-non-residents cut their investments.

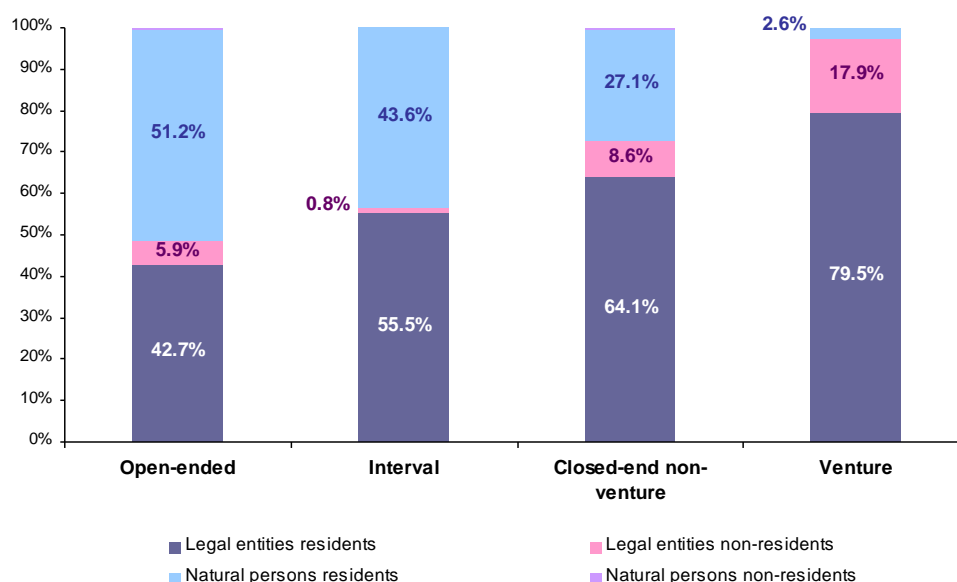


Chart 11. CII NAV breakdown by the categories of investors as of 30.06.2013, share of NAV



The ownership structure of **open-ended CII** in Q2 2013 changed significantly, in the first turn, due to the activity of *legal entities – residents*, who decreased their respective share within the sector NAV by UAH 5.88 mln., or from 43.3% to 42.7%.

Moneys of *foreign legal entities* here continued to decrease almost at the same pace as during the preceding quarter (-UAH 4.49 mln.), which narrowed these investors' share within funds' NAV from 8.6% to 6.1%.

Similar behavior in relation to this sector in April – June was demonstrated by the *citizens of Ukraine*, whose moneys held within the net assets of open-ended funds decreased by UAH 1.12 mln. (after +UAH 1.94 mln. in January – March). In the meantime, an even more massive withdrawal of capital by institutional investors resulted in increase of the share of retail investors-residents in open-ended CII from 48.2% to 51.2%. In such way, for the first time since Q4 2011, citizens of Ukraine held more than a half of open-ended funds' value.

In **interval CII** most active were particularly legal entities-residents, the amount of whose investments as of 30.06.2013 was UAH 1.51 mln. smaller, and the share narrowed from 45.0% to 43.6%. That was also furthered by an increase of moneys of *companies-residents* in these funds by UAH 2.50 mln., which was accompanied by an increase of the share of this investor category from 54.2% to 55.6%.

Thus, the dynamics of the investor structure of this CII sector in Q2 was to a great extent opposite to the changes of three preceding months, though that was partially due to a different number and makeup of funds that reported on their operations as of the end of reporting and preceding quarters. The same applies to the CII sector below as well.

In **closed-end CII (with exception of venture ones)**, similarly to open-ended ones, moneys of *legal entities-residents* decreased most – by UAH 313.92 mln. Facilitated by an increase of non-residents' investments, that resulted in a further narrowing of the share of national institutional investors in this CII sector from 65.2% to 64.1%.

Natural persons – residents decreased their aggregate investments by UAH 60.04 mln. (compared to +UAH 94.23 mln. in Q1), although, in view of the above described dynamics of Ukrainian companies' contributions, their share in closed-end funds continued to broaden (from 26.7% to 27.1%).

Most notable expansion of foreign companies' presence occurred in closed-end non-venture funds – from 7.9% to 8.6% (+UAH 23.43 mln.).

In the sector of **venture CII** in Q2 2013, as it has been noted earlier, those were legal entities-residents that became the greatest and the most active contributors, with an aggregate growth of investments by UAH 7 946.83 mln. twice exceeding the decline registered according to Q1 results. Finally, these investors' share in funds grew from 78.4% to 79.5%.

An increase of the amount of moneys of natural persons – residents in venture CII by UAH 243.72 mln. conformed to the sector growth pace on the whole, thus these investors' share here remained virtually unchanged (2.6%).

Investors – non-residents demonstrated most of their interest particularly to venture CII, which was reflected in increase of their contributions by UAH 98.94 mln. (including those of institutional investors – by UAH 98.68 mln.). However, in relation to other investor categories this increase was a minor one and, respectively, was accompanied by narrowing of this category's share within an aggregate sector NAV from 19.0% to 17.9%.

7. The Asset Structure of CII

The dynamics of changes within the asset structure of investment funds by the **types of instruments** in Q2 2013 was significantly different from how the situation developed as regards this aspect of CII operations during the first three months of 2013. All categories of funds underwent either considerably more moderate changes as regards the proportion of instruments within portfolios, or the said changes were opposite to those had experienced in Q1.



Notable was narrowing of the share of **bank metals** in all CII sectors, which was due to a global trend of bank metals' prices decline.

The share of **securities** within assets of all CII sectors, with exception of the interval one, narrowed, at that, in open-ended one – for the fifth quarter in a row (from 52.3% to 52.0%). In the aggregate assets of interval funds, the securities' share added almost 3 percentage points and comprised 75.4%. In closed-end non-venture CII all stock market instruments in aggregate still comprised over 50% of assets (54.6% after 55.5% in Q1), and in venture ones – already less than 30% (29.9% after 31.9%) (Chart 12).

In open-ended CII a decrease of the assets in **equities** accelerated (-UAH 5.58 mln. after -UAH 2.00 mln. in Q1), which became the key driver of the sector NAV decline.

In the rest of CII sectors the share of equities grew unevenly, though aggregate investments of closed-end funds into these instruments decreased, though not that significantly as those into **corporate bonds**. The latter declined both by aggregate value and share within the aggregate assets of each and every CII sector, with exception of venture funds. However, even there an increase of the amount of investments into corporate debt securities was a minor one, as a result, their share within the assets of these CII narrowed.

The share of **moneys in banks** changed differently in different sectors in Q2: in closed-end non-venture and open-ended CII it went on growing, whilst in interval and venture ones – narrowed. Simultaneously, in monetary terms, the assets on bank accounts grew solely in closed-end CII.

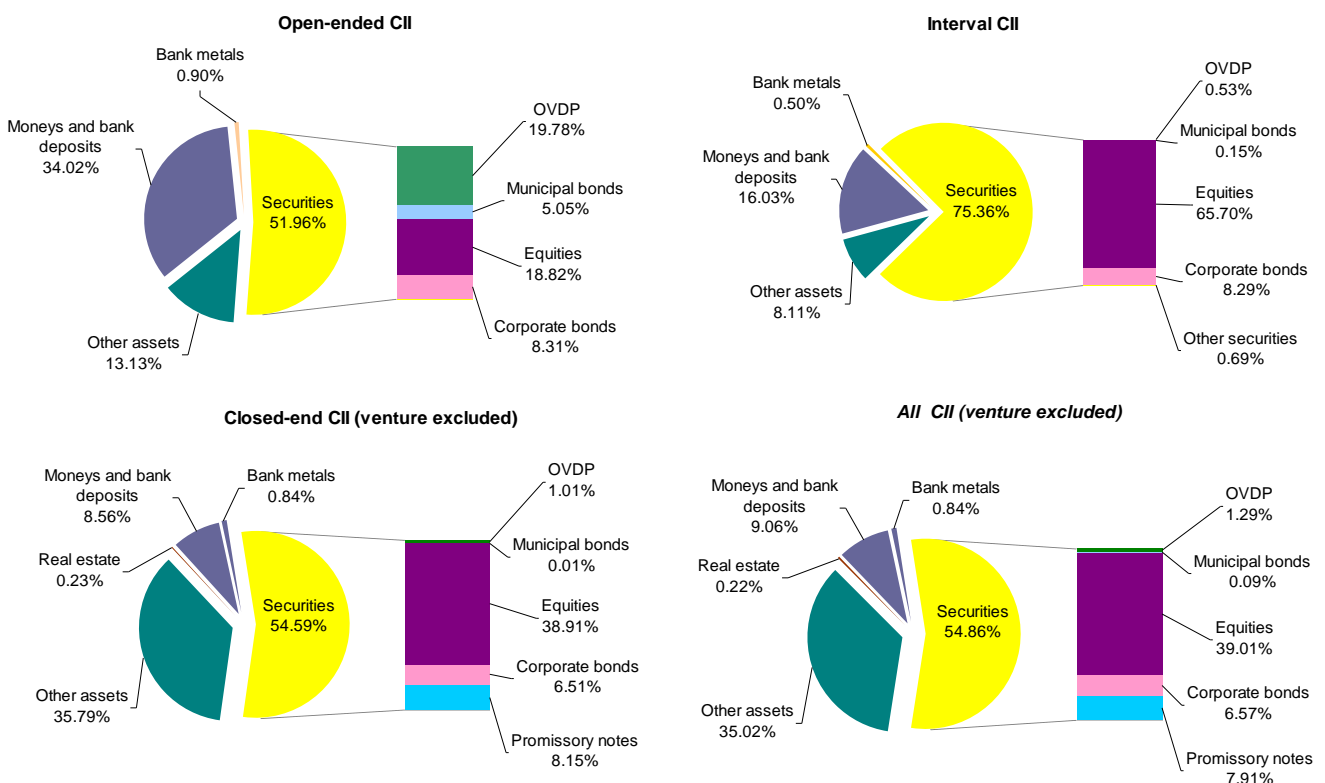


Chart 12. CII asset structure, venture funds excluded, by the types of funds as of 30.06.2013

The key changes in the structure of the aggregate CII portfolios by the types of funds in Q2 2013 were as follows:

Open-ended funds

Increase of the share of investments into such instruments:

- moneys and bank deposits – from 33.8% to 34.0%;



- “other” assets⁴ – from 12.8% to 13.1%;
- OVDP – from 17.2% to 19.8%;

Decrease:

- equities – from 20.9% to 18.8%;
- corporate bonds – from 8.9% to 8.3%;
- municipal bonds – from 5.3% to 5.1%;

Interval funds**Increase:**

- equities – from 62.6% to 65.7%;

Decrease:

- moneys and bank deposits – from 17.0% to 16.0%;
- “other” assets – from 10% to 8.1%;
- corporate bonds – from 8.5% to 8.3%;

Closed-end (with exception of venture) funds**Increase:**

- equities – from 38.2% to 38.9%;
- “other” assets – from 35.1% to 35.8%;
- moneys and bank deposits – from 8.1% to 8.6%;
- promissory notes – from 7.9% to 8.2%;

Decrease:

- corporate bonds – from 8.5% to 6.5%.

Changes in the aggregate portfolio of **venture CII** assets in Q2 2013 confirmed absence of stable tendencies.

In such way, the share of *securities* on the whole narrowed by almost 2 percentage points – to 29.9%, at that, mostly owing to *promissory notes*, the investments into which, unlike in Q1, decreased notably (-UAH 2 450.45 mln.). All in all, during Q2 venture funds decreased their asset held in securities by UAH 1 709.37 mln. A decline of the investments into stock instruments was contained by investments into *equities*, as assets held in these securities grew by almost UAH 687.93 mln.

In the meantime, investments into “other” assets acted as the key driver of the sector asset growth (+UAH 5 315.82 mln.), and their share grew by 1.9 percentage points – up to 65.0%. A notable increase took place in the investments into real estate (+by UAH 445 mln.) (Chart 13).

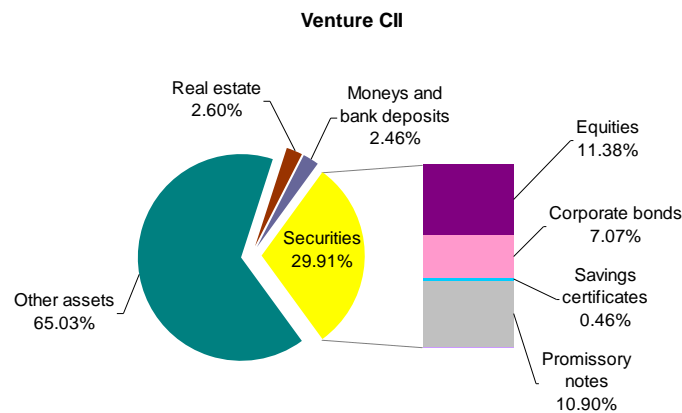


Chart 13. Venture CII asset structure as of 30.06.2013

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).



The key changes in the structure of the aggregate **venture CII** portfolio in Q2 were as follows:

Increase:

- “other” assets – from 63.2% to 65.0%;
- equities – from 11.2% to 11.4%;
- real estate – from 2.4% to 2.6%;

Decrease:

- promissory notes – from 12.9% to 10.9%;
- corporate bonds – from 7.2% to 7.1%;
- moneys and bank deposits – from 2.6% to 2.5%.

Just as at the start of 2013, in Q2 *equities* became **the greatest, by an aggregate value of investments thereto, class of securities** within the aggregate portfolio of all CII. Their share within the portfolio of funds' financial instruments grew from 38.8% to 41.5%, and in monetary terms investments increased by UAH 582 mln. to UAH 21 051 mln. (Table 6).

Promissory notes, which became a second instrument by the volumes of accumulated CII investments, on the contrary, narrowed their share from 37.5% to 34.1% as a result of investments' decrease by UAH 2 460 mln. compared to Q1 – up to UAH 17 300 mln. At that, in venture funds the value of aggregate investments into promissory notes went down by UAH 2 450 mln. to UAH 16 531 mln.

Corporate bonds remained third by the volumes of CII investments thereto reaching UAH 11 362 mln. (22.4% after 21.9% in Q1 2013), though assets held in them decreased by UAH 163 mln.

Most notable from the view point of relative dynamics was an increase of the investments of CII (venture ones) into *treasury bonds*. In Q1 2013, the volume of investments into the said instrument comprised only UAH 44 thsd., whilst already in Q2 – more than UAH 8 mln. Thus, their value within an aggregate CII portfolio grew from zero to almost 0.02%.

Derivative instruments, the respective share of which as of Q2 was somewhat bigger than the one of the above-mentioned instruments, also notably broadened their presence in CII – their aggregate value increased by UAH 6 mln. to almost UAH 9 mln. That occurred solely owing to venture funds. All in all, **the securities portfolio of all CII** in April – June 2013 decreased by UAH 2 055 mln (to UAH 50 692 mln.).

Table 6.

Value breakdown of CII aggregate securities portfolio, by the types of instruments, as of 30.06.2013

Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	21 051 161 298	41.53%
Promissory notes	17 300 420 383	34.13%
Corporate bonds	11 362 019 821	22.41%
Savings certificates	695 116 605	1.37%
Internal state loan bonds (OVDP)	126 979 434	0.25%
Mortgage securities	126 883 625	0.25%
Municipal bonds	11 835 047	0.02%
Derivatives	8 892 096	0.02%
Treasury bonds	8 310 633	0.02%
Total	50 691 618 942	100.00%

An aggregate portfolio of **open-ended, interval and closed-end (except venture ones) CII** in Q2 lost UAH 346 mln. Material turned out to be only such change, as a decrease of investments into *corporate bonds* (-UAH 232 mln.) and *equities* (-UAH 105 mln.). Finally, the share of the former within the portfolio of non-venture CII narrowed from 15.3% to 12.0%, having shifted these instruments to the third place by investments volume as of the quarter end. In the meantime, the share of *equities* broadened from 68.6% to 71.1% (Table 7).



Table 7.

Value breakdown of non-venture CII aggregate securities portfolio, by the types of instruments, as of 30.06.2013

Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	3 794 981 818	71.11%
Promissory notes	769 054 889	14.41%
Corporate bonds	639 012 256	11.97%
OVDP	125 365 729	2.35%
Municipal bonds	8 280 893	0.16%
Total	5 336 695 586	100.00%

An aggregate volume of these CII investments into other types of securities also decreased, whilst bonds of external state loan disappeared altogether, and OVDP became the only instrument which demonstrated an increase of investments thereinto (+UAH 7 mln.). That resulted in broadening of their respective share within the portfolio of non-venture funds from 2.1% to almost 2.4%.

8. The Rate of Return of CII

CII rates of return in Q2 were affected by the stock market downfall at the quarter beginning and a moderate growth during its three months, the result of the above being the key indexes' losses of 4-6%, with a further withdrawal of capital from non-venture, in particular, open-ended CII, continuing. In such way, unlike in the preceding quarter, the rate of return on investments into funds on the whole lowered.

All non-venture CII sectors generated negative quarterly rates of return. Since the beginning of 2013 only *interval funds* managed to ensure investments' value growth – almost +4.9% on average. January-March leaders – *interval CII* – completed Q2 with an indicator of -1.3% (+6.2% in Q1). Rates of return of *open-ended funds* were somewhat lower (-1.8%), including compared to the Q1 (-0.1%). During the half-year these funds generated on average -1.9%. *Closed-end CII* generated the lowest indicator – -3.2%, despite back in Q1 they had been second best after UAH deposits⁵ (+2.5% versus +4.9%). Since year beginning, this sector of funds generated a close to zero rate of return (-0.8%) (Chart 14).

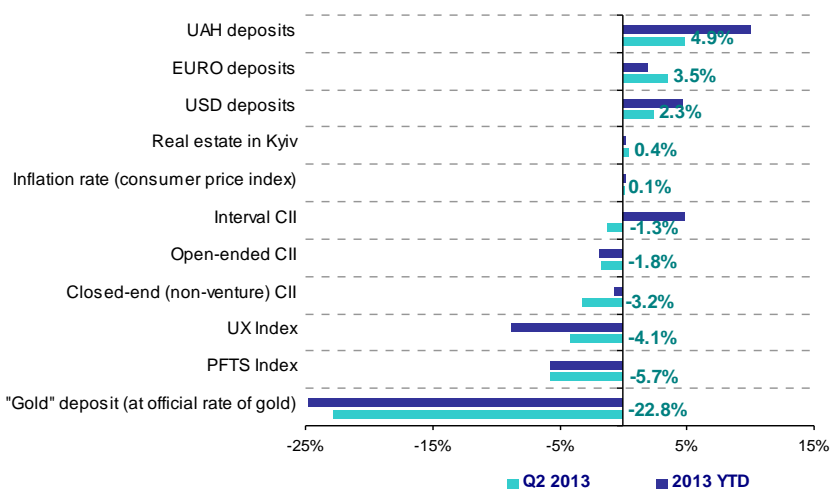


Chart. 14. Average rates of return – CII, deposits, equity indexes and inflation rate in Q2 2013 and YTD⁶

⁵ 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 (up to 3% per annum). In the meantime, the rates of return calculated do not take into account possible commissions, other costs incurred at entry to/ exit from funds, as well as investment profit taxation.

⁶ CII rates of return are calculated based on the reporting data for Q2 2013 (40 open-ended, 33 interval and 130 closed-end CII) and Q1 2013 (41 open-ended, 32 interval and 131 closed-end CII) - see Ranking of the rates of return of open-ended, interval and closed-end funds. The inflation rate provided is based on the State Statistics Committee data (Consumer price indexes – 2012). Return on real estate is calculated as an average based on the data on real estate value from web portals: : <http://www.domik.net>, <http://100realty.ua>, <http://realt.ua>.



Funds' performance indicators in Q2 continued to vary greatly depending on CII type, investment strategy and actual asset makeup.

Among **open-ended CII** there were two funds, the performance results of which differed greatly from the rest of funds: one of them lost 36%, and the other one added 15%. All in all, the rates of return of funds were evenly distributed, though somewhat shifted into the negative zone. In such way, 15 out of 40 funds managed to increase value of their contributors' investments (after 20 out of 40 in Q1). 2 funds demonstrated rates of return above those on Hryvnya deposits in banks (after 5 in Q1).

A similar situation was observed in the sector of **interval CII**, where one fund lost 21%, and another one added 12%, at a considerably narrower and more even range of the rates of return of the rest of sector participants. All in all, 12 out of 33 these CII increased the value of their contributors' investments in Q2 2013 (after 20 out of 31 in Q1).

Rates of return of different **closed-end CII** were within the broadest range – between -76% and +26%, at that, also, 2 funds experienced a drop of their securities' value by more than 50%, which was outside the range of the rates of return of the rest of funds belonging to these types. Thus, not taking into consideration three funds that lost more than a half of their equities' or certificates' value, an average rate of return in the sector of closed-end CII in Q2 comprised -1.7%.

39 out of 130 closed-end funds increased the value of investments of their contributors (compared to 52 out of 132 in Q1), at that, 8 CII earned rates of return above those on Hryvnia deposits (after 22 in Q1 2013).

Among the classes of **diversified publicly placed CII** (based on a current structure of their assets) most successful performance in Q2 was demonstrated by a *money market fund* (only one CII was attributed to this class, with an indicator of +3.9%), as well as several *hybrid funds* (on average -1.0%, and the leader – +3.3%).

Among "other" funds there were also several CII with conservative strategies, which appeared in this group due to a lack of investments into fixed rate of return instruments⁷. Their quarterly rates of return were at the level of 3.7%. On the whole, this biggest class (59 out of 75 diversified public CII) included funds with performance results ranging between -36.4% and +6.8%, with an average indicator of -1.9% for Q2 2013.

Equity funds generated on average -1.2% (after +1.7% in Q1), though among them was one fund with a quite different indicator (+11.7%), without taking which into account an average rate of return in the sector would be at the level of -3.3% – close to the indicators demonstrated by the national equity indexes.

There were no CII in the class of *bond funds* in Q2. The only fund that had belonged to this class by its asset structure in Q1 and demonstrated +3.3% then, in Q2 was already among "other funds" and generated -3.9% (Chart 15).

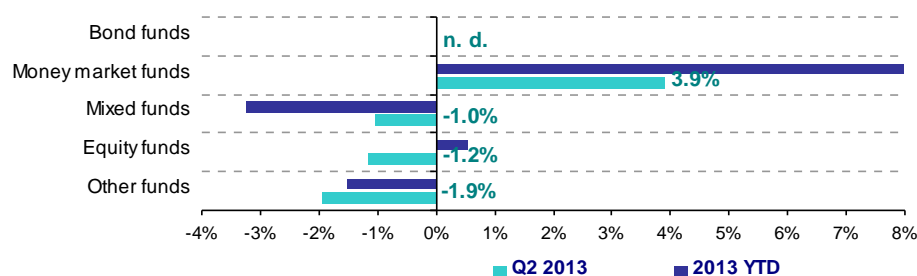


Chart 15. Average rates of return of diversified publicly placed CII, by the classes of funds, in Q2 2013 and YTD

⁷ See. [Methodology for Ranking Asset Management Companies and Collective Investment Institutions \(Unit and Corporate Investment Funds\) Based on Their Performance Results.](#)



9. Resume

Rapid downward movement in the Ukrainian stock market at the start of Q2 2013 furthered by negative foreign economic drivers, which was replaced by a sideways trend later, provoked downtrends in the collective investments industry.

The key trends of the Ukrainian CII market in Q2 2013 demonstrated further growth in the sector of venture funds, as well as preserved downtrends in the sector of public, in particular, open-ended CII.

The changes that had been registered during three preceding months deepened in many aspects, although in April – June new trends were observed, namely: the venture sector resumed asset growth, which happened owing to an increase in the number of funds belonging to this category; capital outflow from open-ended CII intensified both due to national and foreign investors; the share of corporate bonds within the assets of closed–end – venture, as well as in the rest of CIII belonging to this type - narrowed, and CII rates of return went down virtually in all types and classes of funds.

In the meanwhile, such trends as decrease in the number of market participants – AMC and funds that reached compliance with the standards, at a further growth of registered CII number; decrease of the investments into corporate bonds and their respective share within the aggregate portfolios of the sectors of open-ended and interval funds; withdrawal of a substantial portion of assets from open-ended CII, and broadening of the share of the most liquid component of open-ended and closed-end non-venture CII, continued.

In Q2 2013, there was a demand for venture CII both in Ukraine and from abroad, at that, the share of investments of the citizens of Ukraine within the total assets of these funds even somewhat increased. Interval CII also enjoyed a certain demand on the part of national institutional investors, and closed-end non-venture CII – on the part of foreign ones.

Additional information on CII on the UAIB website:

- CII Directory:
[Funds managed](#)
- [Funds' dynamics](#) (publicly placed)
- Analytical reports and statistics of public investment funds:
[Weekly](#)
[Monthly](#)
- Rankings:
[CII – by types of funds](#)
[CII- by classes of funds](#)