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1. Stock Markets: Ukraine and the World

At the beginning of 2021, global markets generally continued to make up for previous losses, along with the recovery of national and international economies after the severe crisis associated with the fight against the new coronavirus pandemic. Virtually all developed stock markets in the world in the 1st quarter grew, pushing up the rest of the markets of trading partners.

Large-scale vaccination campaigns have been launched in the United States and Europe, although difficulties in coordinating vaccination policies in EU countries have somewhat hampered this process; governments gradually lifted quarantine restrictions to support economic activity, although in some places they had to be reintroduced for some time. However, a number of positive macroeconomic indicators published in the world's leading countries during this period, together with improved estimates of further growth, in the context of unprecedented fiscal and monetary support, contributed to the upward trend of the markets.

The growth of US stock indices slowed down somewhat in Q1 2021, but remained above the pre-crisis rate: + 6.5-8.5% (after + 9.5-11.0% in Q4 2020). The leading EU markets generally moved at the same rate: + 8.4% in France (after + 16.6%) and + 9.4% in Germany (after + 7.5%).

In the United Kingdom, which began to effectively exit the EU Single Market in January this year, the results of the key stock index for Q1 were the most modest: + 2.4% (after + 11.8% in Q4 2020). The British market at the end of March also grew by 2-3 times less than the French and German over the past year.

In January-March 2021, Japanese blue chips grew slightly above the average for developed markets, leaving their lead in the previous quarter: +6.4% (after + 18.4%).

In Poland, which some international organizations consider to be developed markets, the shares of leading companies lost 2.3% in Q4 2021 (after + 15.8% in Q4 2020).

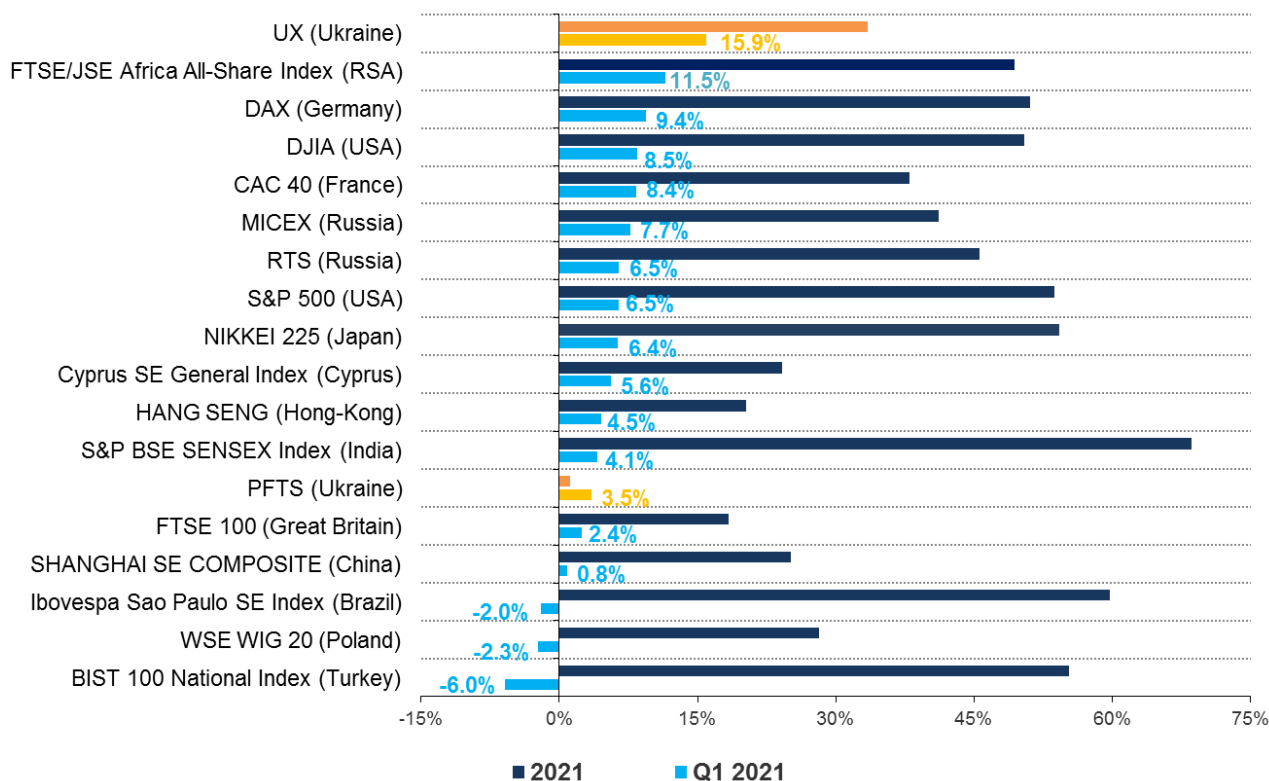


Chart 1. Dynamics of the world stock indices in Q1 2021*

* Based on the data of exchanges and Bloomberg Agency. Ranking in the chart is based on quarterly figures.



Emerging markets in January-March 2021, on average, lagged slightly behind the dynamics of major stock indices. South African stocks rose the most in Q1: +11.5% (after + 9.9% in the previous quarter), while the leaders of the last quarter of last year, Cypriot equities, added close to the average of 5.6% (after + 30.3%). During this period, the Russian RTS dollar index increased by 6.5% (after + 17.7%), and the MICEX ruble rose by 7.7% (after + 13.2%). Chinese stocks of the "continental" market from the beginning of 2021 to the end of March added only 0.8% (after + 6.1% in the previous quarter), while the key Hong Kong index rose much more significantly, although also slowed down: +4.5% (after +15.7 %). The stock indices of Turkey and Brazil in Q1 2021 moved from leaders to outsiders, almost the only ones to fall below the level in March in early January: -6.0% and -2.0% respectively (after +29.2% and +25.8% for Q4 2020).

The Ukrainian stock market in Q1 2021 followed an upward trend. Both major stock indices rose during this period, although one was significantly ahead of the other. The index of Ukrainian shares of UX in January-March increased by 15.9% (after +23.6 in Q4 2020), ie the largest among the world indices of various markets, and the PFTS index at this time added "only" 3.5% (after - 0.1%). At the same time, the composition of shares included in both Ukrainian indices did not change in Q1 2021: the UX index included 6 shares (4 energy companies, one - machine-building and one bank); PFTS index - 7: in addition to 5 shares from the UX index (energy and banking), there is also one machine-building and one telecommunications company.

The growth of blue chips in the Ukrainian market at this time was ahead of the recovery of macroeconomic indicators in Ukraine. Thus, in Q1 2021, according to the State Statistics Committee, real GDP decreased compared to the previous quarter by 1.1% (seasonally adjusted), and year on year - by 2.0% (after -0.5% in Q4 2020). At the same time, the index of construction products in January-March 2021 lost 12.3% compared to the same period

of the previous year (after + 5.6% in October-December 2020), agricultural products - slowed down the annual decline to -4.8% (from -11.5% in the previous quarter), and the industrial production index - to -2.0% (from -5.2%), although in March 2021 the latter has already grown by 2.1% for the year. Also, exports of goods from Ukraine in Q1 2021 were 4.5% higher than a year ago, and imports - only 0.5%, which helped balance the foreign trade balance and, consequently, reduce the pressure on the national currency.

The official exchange rates of the hryvnia against the US dollar and the euro strengthened in Q1 2021, by 1.4% and 6.2%, respectively (after + 0.1% - 4.6% in the previous quarter). Nevertheless, consumer prices accelerated to 7.4% year on year in Q1 2021 in general and to 8.5% in March in particular (from 5.0% in December 2020). Given this inflationary pressure, the NBU expected to raise its discount rate twice a quarter: to 6.5% in March and to 7.5% in April. Thus, he made the real rate negative during this period to help further stimulate economic recovery.

Ukraine's international reserves for the first three months of 2021, according to the NBU, decreased by more than USD 2 billion dollars (in equivalent), leveling most of the growth for the previous quarter, and at the end of March amounted to USD 27.0 billion dollars. This was due to significant repayments of foreign and domestic liabilities of the state, although they were partially offset by foreign exchange earnings in favor of the government¹. Thus, the volume of Ukraine's international reserves, although reduced, allowed to continue to meet financial obligations and domestic creditors.

During January-March 2021, the Ministry of Finance of Ukraine continued to hold weekly auctions for the sale of OVDPs, which were in great demand among domestic and foreign investors, although their rates remained high compared to the pre-crisis level. In Q1, the Ministry of Finance placed OVDPs worth over UAH 122 billion, which is 26.3% less than in Q4 2020, but almost twice as much as in

¹ <https://bank.gov.ua/ua/news/all/mijnarodni-rezervi-stanovili-27-mlrd-dol-ssha-za-pidsumkami-bereznya>

the same period a year ago. Of these, UAH 95.0 billion - for hryvnia bonds, as well as foreign currency OVDPs for USD 0.7 billion and EUR 0.1 billion. Most of the borrowed funds went to repay previously issued bonds, as the volume of OVDPs in circulation increased by UAH 30.7 billion in Q1.

In January-March 2021, the largest demand for OVDPs was from non-residents, which increased their portfolios of these instruments by over UAH 19.7 billion during this time (+23.4%), as well as banks (+UAH 12.0 billion, + 2.3%), and In terms of relative growth, local retail investors (+39.1% and UAH +4.3 billion) increased their investments in government securities by at least a third for the second quarter in a row.

As of the end of March 2021, the largest holders of domestic government bonds remained Ukrainian banks (51.5% of OVDPs in circulation for the principal amount of debt - UAH 526.4 billion) and the NBU, which, however, reduced its share to 31.5%, including by reducing its portfolio by UAH 2.5 billion (-0.8%) for Q1. During this period, resident legal entities, including participants in capital markets, reduced their total public debt financing by almost UAH 3 billion (-5.2%) and at the end of March owned 5.3% of OVDPs in circulation, ie UAH 54.1 billion (after UAH 5.8%). % at the beginning of the year).

Resident individuals increased their OVDPs portfolio in January-March to UAH 15.3 billion, or 1.5% of these instruments in circulation.

OVDPs continued to be the main investment instrument in the domestic capital market, which was associated not only with an attractive return on risk but also with a limited number of liquid corporate securities listed on the stock exchanges of Ukraine.

During Q1 2021, the stock market in Ukraine continued to narrow in terms of the number of issues of securities admitted to trading, and the volume of trades - to increase.

The consolidated stock exchange list of all current stock exchanges in January-March 2021 decreased by 3.5% (after -2.3% in the previous quarter) and included 493 issues (Table 1). "Listing", ie securities in stock exchange registers, also narrowed: -2.4% (after + 1.0%) - mainly due to government bonds (OVDPs), the number of issues of which on stock exchanges decreased by three (-1.6%, after + 1.6%).

Thus, as of the end of March 2021, OVDPs accounted for 94.0% of all listed instruments on stock exchanges (after 93.2% at the beginning of the year).

Table 1. Dynamics of the stock market of Ukraine in Q1 2021

Indicator / Date	31.03.2020 (Q1 2020)	31.12.2020 (Q4 2020)	31.03.2021 (Q1 2021)	Q1 2020 change	Annual change in Q1 2020
Number of Securities in the listing of stock exchanges, incl.:	507	511	493	-3.5%	-2.8%
Number of securities in the registers (listing) of stock exchanges, incl.:	212	206	201	-2.4%	-5.2%
State bonds (OVDP)	195	192	189	-1.6%	-3.1%
municipal bonds	2	2	2	0.0%	0.0%
corporate bonds	10	8	8	0.0%	-20.0%
equities	3	3	1	-66.7%	-66.7%
CIF equities	1	1	1	0.0%	0.0%
investment certificates	0	0	0	x	x
Trading volume on all stock exchanges in total, UAH M, incl.:	78 293.8	96 334.3	116 995.3	21.4%	49.4%
State bonds (OVDP+OZDP)	77 336.0	94 429.2	115 979.5	22.8%	50.0%
municipal bonds	52.3	1 510.1	63.7	-95.8%	21.8%
corporate bonds	533.3	182.2	351.0	92.7%	-34.2%
equities	326.8	189.1	80.6	-57.4%	-75.3%
investment certificates (and CIF equities)	43.6	2.0	3.9	92.6%	-91.0%
derivatives (excl. state derivatives)	1.1	18.7	10.9	-42.0%	904.6%

Sources: data on securities in lists of stock exchanges and trading volumes – NSSMC, stock exchanges; calculations – UAIB.

* In total, as of March 31, 2021, the lists of the UX, including "listing", included 116 issuances of equities, 14 of CIF equities, 30 of UIF investment certificates, 85 of corporate bonds, 14 of municipal bonds. ** Equities in the "listing" included depositary receipts of MHP S.A. before March 31, 2021.



In Q1 2021, the total quarterly trading volume on all stock exchanges accelerated growth as compared with the previous quarter to 21.4% and, according to the NSSMC, amounted to UAH 117.0 billion. In annual terms, the volume of trades for the quarter increased almost one and a half times.

As before, the vast majority of exchange transactions in Q1 2021 took place with Os, the share of which in value also increased to 99.1%, while the share of external bonds (OZDP) decreased more than twice for the quarter, to 0.2% of total trading volume. In January-March, the total value of government securities transactions continued to increase: +22.8% as compared to Q4 2020.

During this period, trade in municipal securities decreased almost 24 times (after -11.4% in the previous quarter) to UAH 64 million. Thus, these instruments have moved from second to fourth position in popularity among investors.

Instead, the volume of corporate bond transactions in January-March 2021 almost doubled compared to the previous quarter (after a quarter reduction), making these securities the second most popular instrument. Trade in certificates and shares of investment funds grew at a similar pace: + 92.6% (after -38.6% in Q4 2020).

On the contrary, the total value of share transactions in Q1 2021 more than halved to UAH 81 million (after + 170.8%).

2. Asset Management Industry

2.1. Number of AMCs, ANPFs, CIIs, NPFs and ICs with assets under management

During the first three months of 2021, the Ukrainian asset management industry maintained the growth rate of the second half of last year in terms of the number of market participants and total assets under management. The number of operating asset management companies increased by three more in Q1 and amounted to 306 companies as of March 31 (Chart 2). During the quarter, according to UAIB, 8 new AMCs were created, and 5 - ceased operations.

The number of administrators of non-state pension funds (ANPF) in Q1 2021 did not change: 19. Among them were 6 companies that carried out exclusively the activities of NPF administration, the rest - combined it with asset management.

In January-March 2021, 66 new CII were registered, of which 59 were corporate funds, ie immediately after registration they were recognized

as having taken place. Also, 62 new funds were venture funds. The total number of generated CII, which reached the minimum asset ratio ("established"), grew for the 14th consecutive quarter and at the end of March 2021 amounted to 1523 (+3.0% for the quarter).

The number of non-state pension funds (NPFs) under management as of March 31, 2021 was 57 (excluding the NBU corporate fund), including 47 open, 4 corporate and 6 professional. NPF assets were still managed by 34 AMCs.

The number of insurance companies (ICs) that transferred their assets to AMC management in March 2021 also remained constant, as did the number of AMCs that provided the following services: one such company managed the assets of two insurance companies.

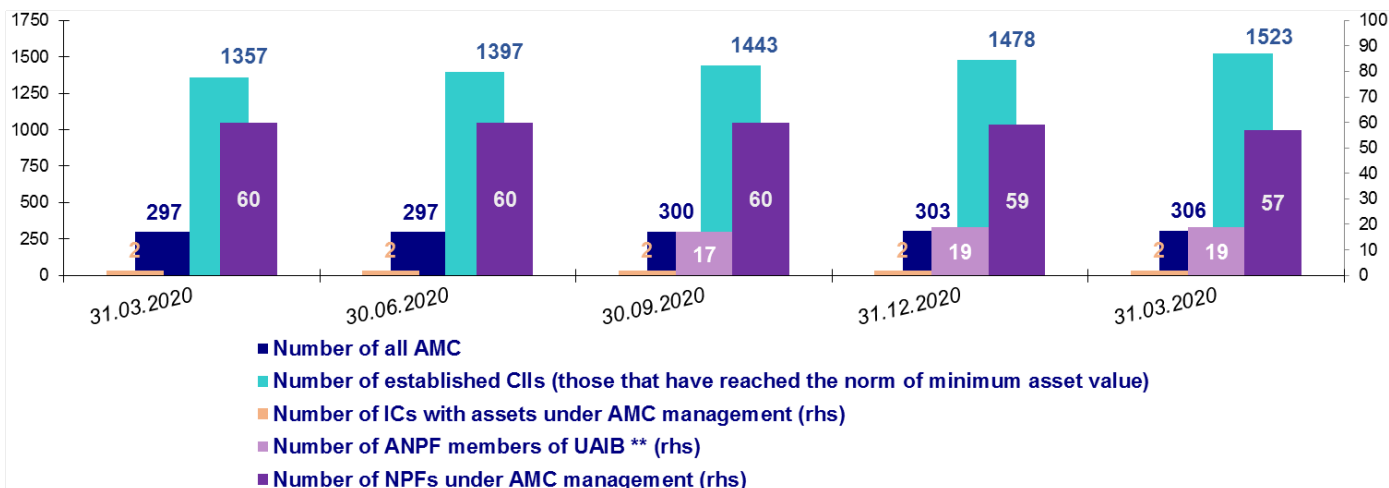


Chart 2. Dynamics of the number of AMC and CII, NPF and IC with assets under AMC management in Q1 2020-2021

2.2. Assets under management, CII NAV and Net Flow of Capital in Open-Ended CII

The total assets of all institutional investors in AMC management practically maintained the growth rate in Q1 2021: from the beginning of January to the end of March they added 5.8% and reached UAH 449,426 million. Over the last 12 months, they accelerated growth from 19.6% in December 2020 to 25.2% in March 2021.

CII assets under management, including those that have not yet reached the minimum assets ratio, also grew by 5.8% in Q1 and by 22.5% in the last year. As of March 31, 2021, they amounted to UAH 447,262 million.

The total assets of existing CII, which were managed by AMC and reached the standards (formed, "established" CII), as of March 31, 2021 reached 441,172 million UAH (Chart 3). In Q1 they grew by 6.5%, and in the year - by 23.6%.

The largest contribution to the value growth of the CII industry in terms of the absolute growth of assets under management in January-March 2021 was traditionally made by venture funds, which was facilitated, among other things, by an increase in their number. Total assets of venture CII added 6.2% and amounted to UAH 423,795 million at the end of March.

At the same time, for the second quarter in a row, the assets of open-ended CII grew much faster, and in January-March 2021 they accelerated their growth to + 57.8% (from + 9.4% in Q4 2020). Over the last 12 months, the assets of this sector have doubled and as of March 31, 2021 amounted to over UAH 176 million.

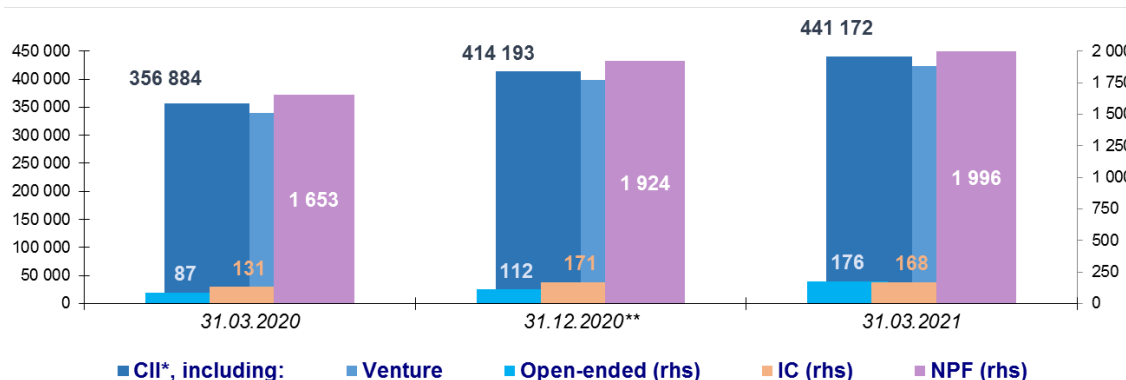


Chart 3. Dynamics of the value of assets under management in Q1 2020-2021, UAH M

NPF assets managed by AMC accelerated quarterly growth to 3.7% In January-March 2021 and the annual growth to 20.7%. As of March 31, 2021, they reached UAH 1,996 million.

The assets of the IC under the management of AMC decreased by 1.5% in Q1 2021 and as of the end of March amounted to UAH 168 million.

The value of net assets of CII as of March 31, 2021 reached UAH 339,946 million. NAV, as well as the total assets of the funds, also practically maintained the growth rate in March: + 5.6% for Q1 and + 23.9% for the last year. The continued growth was influenced by the continued active creation of new funds and an increase in the total number of existing CII, as well as the growth in the value of portfolio investments and additional capital injections into existing funds.

NAV of venture CII in Q1 2021 grew by 5.1%, and for the year - by 24.6% and at the end of March amounted to UAH 323,145 million, or more than 95% of total net CII assets.

Open-ended CII, the number of which remained unchanged in January-March 2021, had an increase in NAV during this period more than one and a half times and more than twice - over the last year. As of March 31, 2021, their NAV amounted to over UAH 175 million. Such rapid dynamics was facilitated, in particular, by the upward trend of the stock market, with a double-digit increase in the key stock index for the quarter. However, the main factor in this was the unprecedented inflow of capital into the sector.

The total net movement of capital in open-ended CII in Q1 2021 was positive for the fifth time in a row and exceeded the figure of the last quarter more than 15 times: +60.5 million UAH (Chart 4).

The annual inflow of capital to open-ended CII, respectively, at the end of March 2021 also reached the maximum in the history of the sector: +75.0 million UAH (after +18.0 million UAH in 2020).

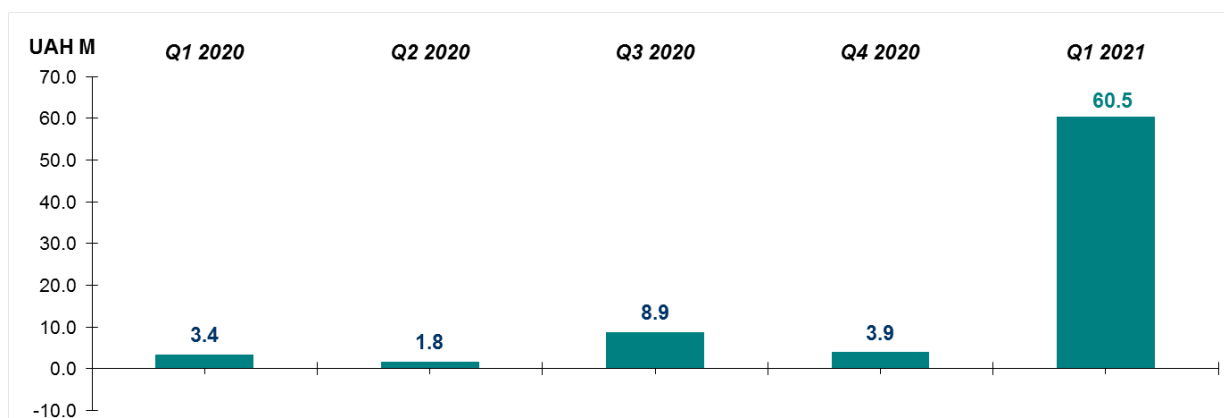


Chart 4. Net inflow/outflow of capital in open-ended CII in Q1 2020-2021

For more detailed information on the performance of asset management markets of CII, NPF and IC, see special UAIB reviews, which will be published on the website: http://www.uaib.com.ua/analituaib/publ_ici_quart.html

See additional and statistical information on the UAIB website:

- [The Ukrainian Fund Market in Figures](#)

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