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1. The Stock Market

During January-March, 2014 global stock markets demonstrated the differently directed dynamics with increasing volatility on the background of a number of factors of uncertainty, that bothered investors. Among them is authenticity of maintenance and scales of the program QE in the USA, the dynamics of China and others. In January the indexes of leading stock exchanges renewed records based on the World Bank's sublimity of estimation of prospects of the world's economy growth in 2014 in a whole and, positive signals, in particular, in the USA, leading EU economies and China.

However, already to the end of January, markets went down sharply, reflecting both global political and economic aggravation and domestic macroeconomic problems. In February, the indexes swiftly won back falling, mostly made up for the loss of January and showed new highs. March was marked by duty failure, which was considerable in some key markets, as well as in emerging ones, which during Q1 continued to show insecure behavior caused by concerns about the pace of growth in China, geopolitical battles in Europe, including the events in Ukraine, falling oil prices and so on. However the last month of Q1 ended with growth, which allowed to reduce partially indexes' shrinkage from the beginning of the year in some markets, and go to the positive zone and even set new records in another ones.

Finally, the results of Q1 for key world indexes were as follows: from -9.0% in Japan, which was the leader in the previous quarter with +12.7%, to +2.7% in France. The Chinese equities showed -3.1%, that was slightly higher than in Q4 2013, however in Hong Kong index fell by 4.7%. Russian indexes failed by 9-15%, and Polish ones - accelerated growth to 2.6%. Major equity indexes in the USA had multidirectional performance: -0.3%/+1.7%. (Table 1, Chart 1).

*Table 1. National markets' stock indexes' dynamics in Q1 2014**

Indexes	31.03.2013	31.12.2013	31.03.2014	Q1 2014 change	1-year change
PFTS (Ukraine)	328.63	300.53	369.18	22.84%	12.34%
UX (Ukraine)	903.42	910.04	1 019.72	12.05%	12.87%
CAC 40 (France)	3 731.42	4 275.71	4 391.50	2.71%	17.69%
WSE WIG 20 (Poland)	2 370.07	2 400.98	2 462.47	2.56%	3.90%
S&P 500 (USA)	1 569.19	1 841.07	1 872.34	1.70%	19.32%
DAX (Germany)	7 795.31	9 552.16	9 555.91	0.04%	22.59%
DJIA (USA)	14 578.54	16 504.29	16 457.66	-0.28%	12.89%
FTSE 100 (Great Britain)	6 411.74	6 731.27	6 598.37	-1.97%	2.91%
SHANGHAI SE COMPOSITE (China)	2 236.62	2 097.53	2 033.31	-3.06%	-9.09%
HANG SENG (Hong Kong)	22 299.63	23 244.87	22 151.06	-4.71%	-0.67%
MICEX (Russia)	1 438.57	1 504.08	1 369.29	-8.96%	-4.82%
NIKKEI 225 (Japan)	12 397.91	16 291.31	14 827.83	-8.98%	19.60%
RTS (Russia)	1 460.04	1 442.73	1 226.10	-15.02%	-16.02%

* Based on the data of exchanges and Bloomberg Agency

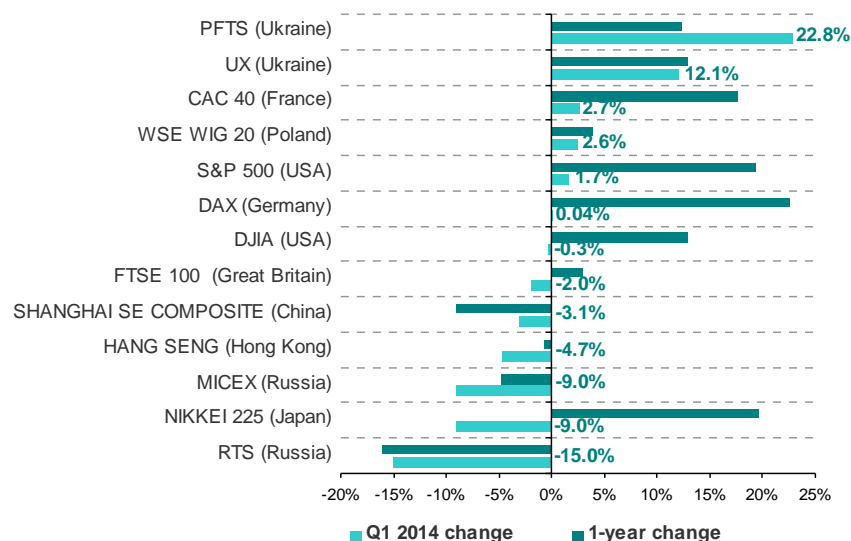


Chart 1. National markets' stock indexes' dynamics in Q1 2014

Ukrainian "blue chips" during the first half of Q1 2014 moved a lateral trend, representing the vagueness in relation to development of events in Ukraine at this time. At the end of January they dropped synchronously with world indexes, and in the last week of February, on a background of dramatic change of political picture and, accordingly, economic aspects in a country, flew up to the level of July, 2012, showing +24% from the beginning of 2014. However the deployment of military conflict in Ukraine at the beginning of March collapsed indexes, that, though quickly recommenced, however completed a quarter practically at the same level, where they were month before. On the whole, in Q1 2014 UX index grew by 12.1% (after +7.3% in previous quarter), PFTS - by 22.8% (accordingly, +0.7%).

In the meantime, trade volumes on two key stock exchanges of Ukraine continued to shrink. On UX the total volume decreased by 8.1% (-UAH 143.34 mln.), to UAH 1 625.72 mln., including the stock market exchange – by 3.5%, up to UAH 1 373.45 mln. At that, though the activity of trades in equities decreased - the number of transactions fell by 16.3%, - their aggregate value increased by 5.3% (+ UAH 53.87 mln.) in conditions of index's increase. The volume of trades in corporate bonds on UX fell by 51.9% (- UAH 127.81 mln.), to UAH 118.28 mln., while reducing in number of contracts was 13.1%.

In the meantime, the volume of trades on stock exchange "Perspectiva" on spot's market decreased by 2.1% (- UAH 1 812.71 mln), where a decline in number of transactions comprised 9.5%. The volume of trades in equities here fell down by 51.1% (- UAH 770.35 mln.), to UAH 736.12 mln, at the almost unchanging amount of contracts concerning these securities. *Corporate bonds* in Q1 2014 on this site were sold 76.5% less in number of transactions and 70.6% less in their total value (UAH 4 164.89 mln).

And OVPD remained to be the most popular securities, which on SE "Perspectiva" in January-March, 2014 were sold 6.4% less than in a previous quarter, and however the volume of these trades grew practically in 8 times, to UAH 80 945.50 mln.

Overall, at the stock exchange, where more than 90% of a securities' trading volume in Ukraine is concentrated, in Q1 2014 97% of contracts were signed in government debt instruments, that strengthened the preceding tendencies and showed further fall of corporate papers' attractiveness, in particular equities, despite the prompt growth of their value during this period.



2. The Number of AMC and CII

In Q1 2014 the number of asset management companies decreased: in traditionally the most active metropolitan area, more AMC were closed, than new ones created. Thus, the dynamics of the market in this respect was similar to that observed in Q1 2013. Total for the quarter 5 new AMC were opened in Kyiv and Mykolaiv. Finally, according to UAIB data, as of 31.03.2014 there were 343 AMC operating in Ukraine, that is 4 less than at the beginning of the year (Chart 2).

The number of registered CII declined for the first time – to 1597 funds (-7, after +11 in Q4). At that, as for UAIB data, 4 funds were registered in Q1 (compared to 30 in Q4 2013). But, despite this, the concentration in the CII asset management market continued to grow due to the relatively greater reduction of AMC. Thus, as of 31.03.2014, one AMC managed 4.66 funds on average (after 4.62 as of 31.12.2013).

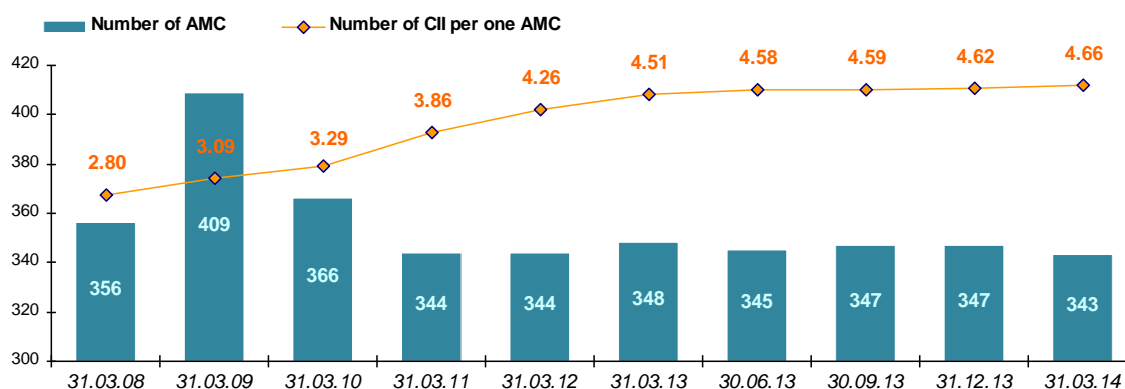


Chart 2. Dynamics of the number of AMC and CII per one AMC in Q1 2008-2014

The number of CII that reached compliance with the standard to minimal asset volume in Q1 also decreased, unlike in Q4 2013. In total these funds became 7 less, namely - 1243. However, the role of closed-end (venture included) CII in this dynamics was traditional: the market decreased quantitatively because of reducing the number of closed - end non-diversified CIF (-3) and UIF (-1), diversified UIF, which became 2 less, the same as the year ago, and also venture CIF (-5) (Table 2).

In the meantime, the number of venture UIF grew further - as of the end of Q1 2014 they became 4 more than at the beginning of the year, and 15 of such CII were recognized during the quarter.

Interval and open-ended funds remained at the same positions as in the previous quarter.

The share of venture CII in the total number of "recognized" CII grew to 82.9% (1030 fund), including UIF - to 69.6% (865 funds).

Table 2. Dynamics of the number of CII that reached compliance with the standards in Q1 2014, by the types and legal forms of funds

	Total	UIF					CIF			
		O*	*	CD*	CNN*	CV*	*	CNN*	CV*	
31.03.2013	1213	42	38	11	48	826	1	108	139	
31.12.2013	1250	38	35	11	43	861	2	90	170	
31.03.2014	1243	38	35	9	42	865	2	87	165	
Q1 2014 change	-7	0	0	-2	-1	4	0	-3	-5	
	-0.6%	0.0%	0.0%	-18.2%	-2.3%	0.5%	0.0%	-3.3%	-2.9%	
Annual change	30	-4	-3	-2	-6	39	1	-21	26	
	2.5%	-9.5%	-7.9%	-18.2%	-12.5%	4.7%	100.0%	-19.4%	18.7%	

*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



As of 31.03.2014, as per UAIB data, 5 open-ended, 4 interval UIF, 3 closed – end non-diversified UIF and the same 16 CIF, 19 venture UIF and 5 CIF were in the process of liquidation or had started it.

The number of funds which did not yet reached the normative of minimal volume standard of assets among all registered CII under AMC management in Q1 2014 declined again – from 84 to 70, and their share among all managed CII decreased from 6.3% to 5.3%, indicating a further slowing of quantitative growth of collective investments’ market.

The amount of CII with public emission in 2014 continued to diminish (- 3 funds in Q1, after - 4 in previous one) and as of 31.03.2014 there were 59 funds.

According to the asset structure-based classification¹, there were 8 equity funds remained, though their composition had changed, bond funds became 3 fewer (2), mixed ones - 3 more (37), “other funds”, or such that did not meet the criteria to equity, bond and mixed funds, – 4 less (55). Still, by the end of Q1, 2014 no diversified CII met the criteria for money market funds (Chart 3).

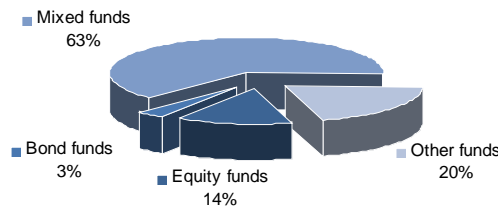


Chart 3. Diversified publicly placed CII, by the classes of funds as of 31.03.2014

3. The Regional Distribution of AMC and CII

During the first three months of 2014 4 AMC in Kyiv obtained licenses and began their activities. However, the total number of the companies in the metropolean region decreased to 241 (-4) due to more active other participants’ exit from business. Lviv region in Q1 lost one participant of the market (in total 6 AMC remained to work here). In regions – leaders by number of registered there asset management companies – Dnipropetrovsk, Kharkiv, Donetsk and Odessa - as well as in other parts of Ukraine, the situation didn’t change (Chart 4).



Chart 4. Regional distribution of AMC number as of 31.03.2014 .

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



Finally, the share of Kyiv and its Region by quantity of AMC was reduced in a quarter from 70.6% to 70.3%.

The number of CII under management in Kyiv Region in Q1 was also reduced, thus its share in regional distribution of CII by number of funds returned to the level of Q3 2013 (71.2%, after 71.3% at the end of 2013). But, the share of other 4 regions, where the institutional investors' assets are the most, grew. The rest of Ukrainian regions covered almost 9.6% of total number of CII (after 9.7% at the end of 2013).

In the regional distribution of CII assets under management, shares of Kyiv and Donetsk grew as well, as in the previous quarter (from 78.0% to 78.9% and from 4.8% to 5.0%, respectively). So, the metropolitan region grew in value, while the number of market's participants (both AMC, and funds) was reduced. Other regions – leaders slightly lost their shares, having allowed the rest of regions to increase their ones from 4.6% to 4.7% (Chart 5).

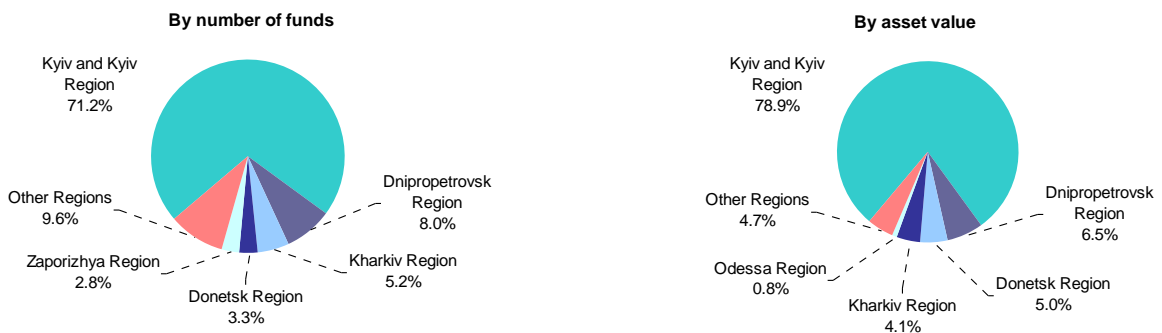


Chart 5. Regional distribution of CII by the number of CII and the value of their assets under management, as of 31.03.2014

4. The Asset and the Net Asset Value of CII

In Q1 2014 the growth of CII assets continued, and this time it was observed in all sectors by types of funds, except open-ended ones. For the first time in three years the aggregate assets of interval funds increased during the quarter (+UAH 3.58mln.). They increased the most dynamically in closed-end non-venture CII, though in absolute terms the venture sector grew more - including due to increasing the number of funds which filed reports (+11). Non-venture CII generated more than UAH 1bln. during the quarter, venture ones - UAH 8.6bln. (Chart 6).

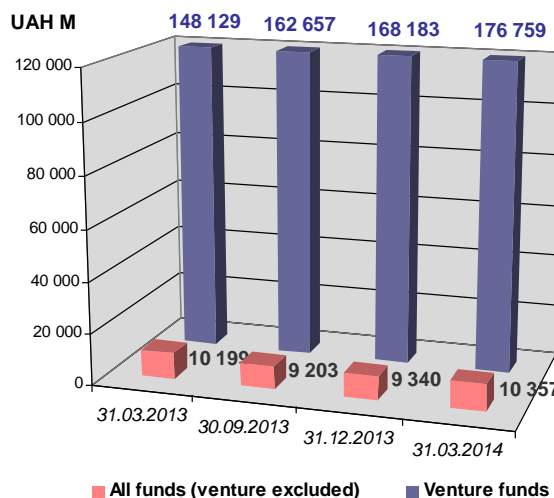


Chart 6. Dynamics of the asset value of CII in Q1 2013-2014



The reduction of open-ended CII' assets took place once again due to the net capital outflow: it exceeded almost in one and a half times the reduction of funds' assets value. Thus, together with the continuing investors' exit, value of assets in the portfolios of open-ended funds began to grow substantially due to the swift positive dynamics of stock market in Q1 2014.

As of 31.03.2014, **the total assets of CII** comprised UAH 187 116.78 mln. An increase was almost twice as much than in a previous quarter - + UAH 9 593.79 mln. (+ 5.4% after 3.3% in Q4 2013). At that, assets of venture CII, that comprised UAH 176 759.40 mln at the end of quarter, increased by UAH 8 576.02 mln. (+5.1% after 3.4% in Q4 2013).

The net assets of CII in Q1 grew by UAH 7 626.52 mln. (+4.8%) to UAH 166 050.99 mln. – also due to all sectors of CII, *except open-ended ones*. The aggregate NAV of these funds decreased by UAH 9.93 mln (-9.6%), after –UAH 15.94 mln. in the preceding quarter (Table 3). Further deceleration of negative dynamics in the sector was predefined by both the ascending trend of fund indexes and completion of exit from the market of several funds in a previous quarter. As of 31.03.2014 net asset value of 31 open-ended CII comprised UAH 93.70 mln.

Interval CII for the first time since Q1 2011 demonstrated increase in NAV, albeit symbolic - + UAH 1.0 mln (+ 0.8%). This is 3.5 times less than the increase in total assets of these funds, however, it is a significant positive change after sector's reducing by almost UAH 20 mln., or 14% in the previous quarter. As of 31.03.2014, the aggregate NAV of the interval CII comprised UAH 123.27 mln.

The growth of net assets of *closed-end non-venture funds* was also lower than the increase in total assets of the sector – + UAH 0.80 mln. At the same time, these funds were the main driver of NAV growth in non-venture CII: their net assets grew by 9.6%, while the net assets of all funds, except venture ones, grew only by 9.2% (due to reductions in the sector of open-ended CII).

The net assets of *venture funds* in Q1 2014 reached UAH 156 720.4 mln, that is UAH 6 839.57 mln. more than at the end of 2013 (+ 4.6%). Quarterly growth of the sector accelerated in nearly one and a half times and represents 90% of the whole CII industry's increase in the net assets value (in Q4 2013 – 97%).

Table 3. Dynamics of the NAV of CII, by the types of funds in Q1 2013-2014 , UAH mln.

Funds	31.03.2013	30.06.2013	31.12.2013	31.03.2014	Q4 2013 change	Q1 2014 change	Annual change
Open-ended	158.58	119.15	103.20	93.27	-13.38%	-9.62%	-41.18%
Interval	143.05	141.99	122.28	123.27	-13.89%	0.81%	-13.83%
Closed-end (venture excluded)	8 800.37	8 165.58	8 318.15	9 114.03	1.87%	9.57%	3.56%
All Funds (Venture excluded)	9 102.00	8 426.72	8 543.63	9 330.57	1.39%	9.21%	2.51%
Venture	128 833.42	145 233.93	149 880.84	156 720.41	3.20%	4.56%	21.65%
All Funds (venture included)	137 935.42	153 660.65	158 424.47	166 050.99	3.10%	4.81%	20.38%

Outrunning growth of closed-end CII assets compared with interval and open-ended funds in Q1 2014 promoted the conservation of the trend of increasing the share of closed-end CII and narrowing the shares of the other two sectors of non-venture funds. For the first three months of the year the share of closed-end CII increased from 97.4% to 97.7%, interval funds' - decreased from 1.4% to 1.3%, and of open-ended ones decreased from 1.2% to 1.0% (Chart 7).

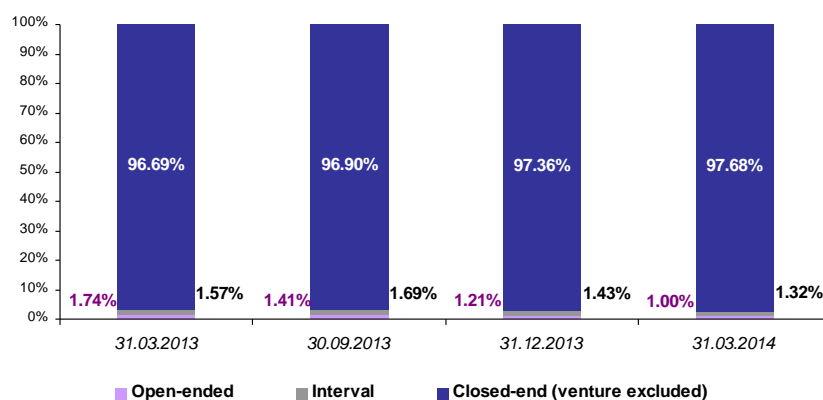


Chart 7. Dynamics of non-venture CII NAV breakdown by the types of funds in Q1 2013-2014



Venture funds, because of almost doubled slower growth compared to other closed-end CII in Q1, suffered untypical, but insignificant decrease of their share in the net assets of all CII – from 94.6% to 94.4% (Chart 8).

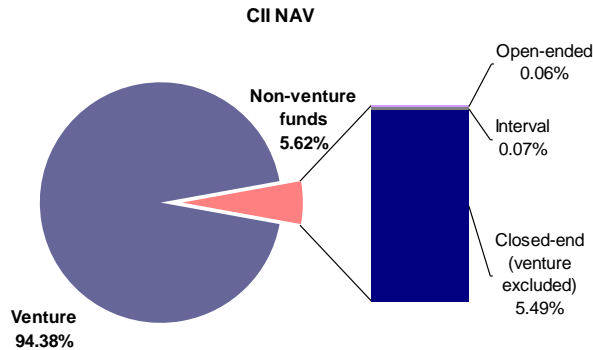


Chart 8. Distribution of CII NAV by the types of funds as of 31.03.2014

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

Capital outflow from open-ended CII rapidly increased at the beginning of 2014. In January, the sector lost more than UAH 10 mln., that was almost 3/4 of the quarterly outflow (Chart 9, Table 4). At that, 96% of losses during the first month of the year accounted for one fund, and 93% of quarterly losses – for three funds, and all of them are under management of the same AMC. The largest net outflow was in the fund with a balanced investment strategy, but in February and March, the "leaders" were, respectively, the aggressive and conservative funds.

In March, total losses of open-ended funds caused by investors' exit were minor (- UAH 0.80 mln.), that can be compared to March 2013 – in this context the only positive month for the market (+ UAH 1.30 mln.). Thus, investors registered a profit in January, after a reasonable growth in Q4 2013, but mostly kept their attachments in March, after rapid growth of funds' yield in February.

During Q1 there were again 2-4 open-ended funds, that had the net inflow of capital each month. All together these funds attracted additionally a bit, however, it was three times more than during last three months of 2013 – UAH 0.45 mln. The number of CII, which had a net outflow, shrank from 10-17 out of 31-33 operating open-ended funds in Q4 to 9 -13 out of 29-30 in January-March, 2014.

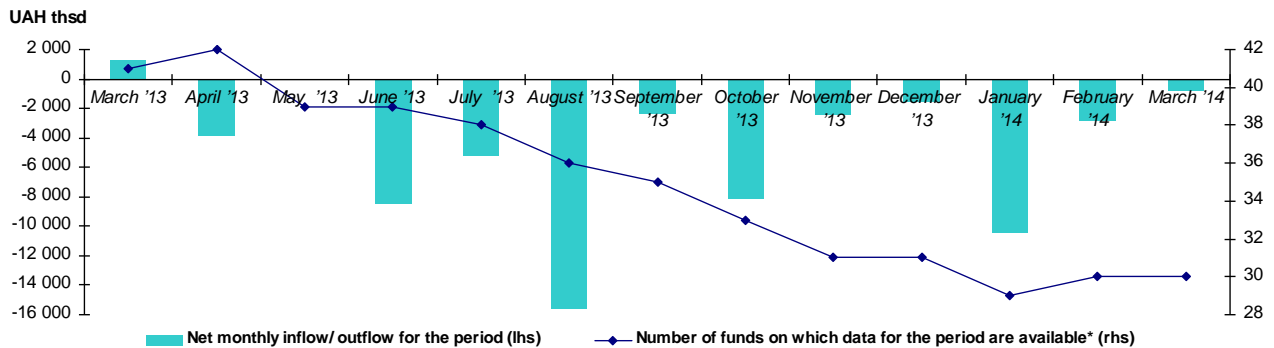


Chart 9. Monthly net inflow/outflow of capital in open-ended CII in March 2013-2014*.

* based on daily data



Table 4. Monthly net inflow/outflow of capital in open-ended CII in March 2013-2014*

Month	Net monthly inflow/ outflow for the period	Number of funds on which data for the period are available
March '13	1 297	41
April '13	-3 870	42
May '13	-70	39
June '13	-8 467	39
July '13	-5 268	38
August '13	-15 623	36
September '13	-2 360	35
October '13	-8 137	33
November '13	-2 445	31
December '13	-1 508	31
January '14	-10 446	29
February '14	-2 844	30
March '14	-804	30
Annual	-61 843	-

* Based on daily data

An aggregate net outflow from open-ended CII in Q1 2014 comprised UAH 14.1 mln., i.e. 17% more than in Q4 2013. For the same period a year ago, the market lost a scant UAH 0.46 mln. (Chart 10). This, however, was only the little longevity "pause" in the long-term trends of capital outflow from the market, which lasted from Q3 2011.

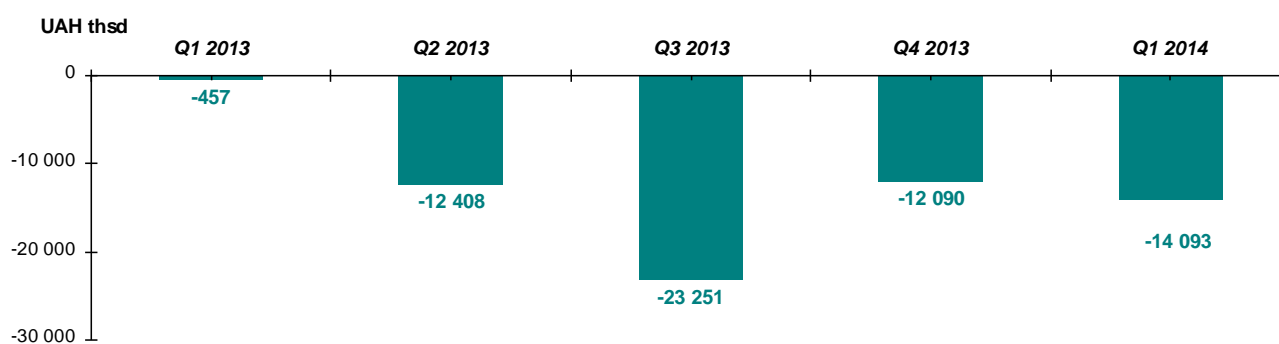


Chart 10. Net inflow/outflow of capital in open-ended CII in Q1 2013-2014

Thus, the negative movement of investors' funds in open-ended CII lasted the 11-th quarter in the row, during which the aggregate net outflows amounted to UAH 170.77 mln. For the year, as of 31.03.2014, UAH 61.84 mln. were withdrawn from open-ended CII, or 28% more than in the previous quarter. This is 95% of annual decrease in open-ended funds' NAV at the end of Q1 (it was 84% as of 31.12.2013).

In January-March, 2014 the net outflow of capital comprised 142% of decrease in net asset of open-ended funds' sector (after 76% in Q4 2013), i.e., NAV dynamis was improved by increasing the value of CII portfolios in the face of stock indexes' rise, that allowed to compensate partially the losses caused by investors' exit.

At this time the **European retail open-ended funds (UCITS)** attracted the funds of investors even more actively, having the quarterly net inflow of capital increased in three times – to EUR 152 bln. after EUR 51 bln. in Q4 2013². The largest inflow – approximately EUR 70 bln. – was in January, when Ukrainian open-ended funds demonstrated the maximum quarterly outflow.

Rapid further growth of UCITS's attractiveness took place under conditions of low inflation in developed markets, falling the long-term interest rates and an outflow of capital from emerging markets.

² See [EFAMA Investment Fund Industry Fact Sheet \(March\)](#), inflow for Q1 is calculated based on data for January - March 2014. See also [EFAMA Quarterly Statistical Report Q1 2014](#).



The revival on equity markets due to the certain improvement of macroeconomic picture in EU also contributed to this. All of it supported demand for long-term funds, especially for bond ones and other conservative funds, while the increased volatility of equity markets somehow restricted investors from making contributions in funds with appropriate strategies.

Bond funds were the leaders in terms of additional contributions in Q1 2014 (+EUR 62 bln., after +EUR 3 bln in the previous quarter), in contrast to October-December, 2013. *Balanced funds*, which had the largest inflow among UCITS classes at the end of 2013 (EUR 30 bln.) in Q1 2014 lost the first place, although they attracted even more additional investments - EUR 33 bln. *Equity funds* during this time received net inflow amounted to EUR 28 bln. (after EUR 40 bln in Q4 2013).

Based on Q1 results, *money market funds* attracted the smallest amount of investments in EU among the open-ended funds by classes of assets, though in January they had the largest inflow among the UCITS - EUR 29 bln. And yet, for the first three months of 2014 they showed + EUR 14 bln. (after –EUR 21 bln. in the previous quarter).

6. The Investors of CII

Ukrainian *legal entities* in Q1 2014 preserved their leadership among CII investors by the volumes of investments, that increased in January-March by UAH 6 020.61 mln.(after + UAH 4 606.92 mln. in the previous quarter). This growth in relative terms was a little bit ahead of the aggregate CII NAV growth, so the share of these investors in net assets increased symbolically over three months, – from 77.4% to 77,5% (table 5, Chart 11)³. 94% of investments’ increase are accounted for venture funds.

Table 5. CII NAV breakdown by the categories of investors as of 31.03.2014, % of NAV

Funds	Legal entities		Natural persons	
	residents	non-residents	non-residents	non-residents
Open-ended	43.60%	6.03%	50.31%	0.07%
Interval	51.59%	0.68%	47.70%	0.03%
Closed-end non-venture	61.50%	5.47%	32.75%	0.28%
All funds (non-venture)	61.19%	5.42%	33.12%	0.27%
Venture funds	78.47%	16.92%	4.60%	0.02%
All funds (venture included)	77.49%	16.26%	6.22%	0.03%

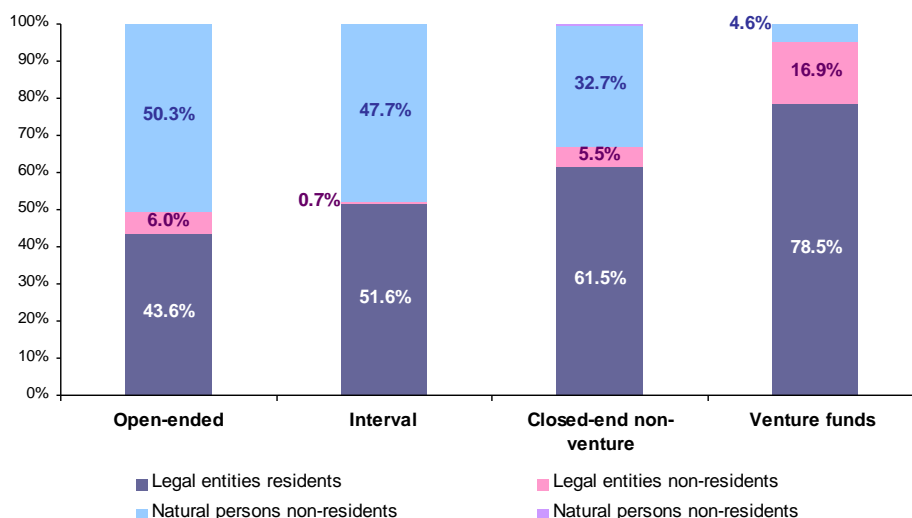


Chart 11. CII NAV breakdown by the categories of investors as of 31.03.2014, share of NAV

³ Excluding CII bearer securities in circulation.



Natural persons-residents also strengthened the increasing of their presence in CII: they increased their share by UAH 2 199.45 mln. (after + UAH 1 399.79 mln. in Q4 2013), 83% of which were owned by venture funds. Eventually, the share of Ukrainian citizens in CII by the investments' volume continued to grow - from 5.1% to 6.2%.

The further foreign investors' exit from funds speeded up the reduction of their shares in CII. So, in Q1 *non-residents* reduced their investments in CII by UAH 566.77 mln. (after - UAH 1 369.13 mln. in the previous quarter), in particular institutional investors – by UAH 510.94 mln. (respectively, -UAH 1 361.95 mln.). At that, investments of foreign enterprises in venture funds became less by UAH 636.40 mln, and their attachments in other categories of CII increased slightly. All in all, as of 31.03.2014, non-residents held 16.3% of the CII NAV (after 17.5% in Q4 2013).

In open-ended CII in Q1 2014 foreign investors' investments increased symbolically - most likely due to the increasing value of funds' assets, while an outflow from the sector lasted. At this time the *legal entities-residents* lost totally UAH 8.47 mln in the NAV of these CII (after - UAH 9.12 mln. over the previous three months). *Citizens of Ukraine* also continued to withdraw money from open-ended funds, but their total investments decreased 2.5 times less than in Q4 2013 - by UAH 2.10 mln. Finally, the share of domestic institutional investors in CII decreased from 47.6% to 43.6%, and that of retailers – continued to increase as opposed to investments' removal – with 47.5% to 50.3%.

Foreign legal entities at the end of Q1 2014 owned only UAH 64 mln. more in open-ended funds' NAV (after -UAH 1.77 mln at the end of 2013), but their share in the sector amid investments' dynamics of other categories of investors rose from 4.8% to 6.0%. *Foreign citizens'* possessions also increased symbolically, but only to 0.07% of NAV.

In interval CII at the end of March 2014 *Ukrainian enterprises* remained to be the major investors; their investments became more by UAH 1.38 mln. (after -UAH 17.37 mln. in Q4 2013). This allowed to expand their share in sector's NAV from 50.9% to 51.6%. *Retail investors – citizens of Ukraine* - continued to reduce their presence in interval funds, although their share dropped insignificantly – by UAH 0.45 mln. (in Q4 2013 – by UAH 1.97 mln.), or from 48.5% to 47.7%.

Total foreigners' investments in these CII, as of 31.03.2014, became symbolically more, reflecting not so much the additional investments, as the rising value of the existing ones. This, however, led to the non-residents' share growth in the sector from 0.67% to 0.71% against the passive behaviour of Ukrainian citizens.

In closed-end CII in Q1 2014 the investments of Ukrainian investors increased dramatically, at that there were more investments of natural persons than those of legal entities (+UAH 367.62 mln. and +UAH 358.79 mln., respectively), and one and a half times more than in the previous quarter. Non-residents also increased their ownings in closed-end funds – by UAH 68.93 mln (after -UAH 132.10 mln. in Q4 2013), that was relatively more significant than the gain of residents' attachments. Because of this, the share of the first ones in sector's NAV increased from 5.5% to 5.8%, including foreign companies – from 5.2% to 5.5%.

Finally, the share of *natural persons - residents* in closed-end funds increased, the same as in the previous three months, from 31.5% to 32.8%, and the *legal entities'* share – reduced from 63.1% to 61.5%.

The trends of investments' dynamics in **venture CII** from the various categories of investors, that appeared at the end of 2013, in Q1 2014 were preserved. Thus, the sector grew rapidly thanks to the investments of the *enterprises-residents* by UAH 5 668.91 mln. (after + UAH 4 583.96 mln. in Q4 2013), and of the *citizens of Ukraine* – by UAH 1 834.38 mln (+ UAH 1 171.15 mln., respectively). Share of the first ones increased from 78.3% to 78.5%, the second ones' – from 3.6% to 4.6%.

Non-residents, in particular *legal entities*, continued to withdraw their money from venture funds – their investments in NAV of these funds became less by UAH 575.42 mln. (after – UAH 1 229.10 mln. in Q4 2013). The share of *foreign institutional investors* fell from 18.1% to 16.9%. *Foreign citizens* reduced their presence in venture CII by 69% (- UAH 60.98 mln.), therefore their part in a sector, the least one even without that, dropped relatively the most – from 0.06% to 0.02%, and the volume of their total investments in the sector reached the level of investments in other closed-end CII.



In general, in Q1 the investments' withdrawal from CII by non-residents slowed down doubled compared with the previous quarter, and increase of Ukrainian citizens' investments accelerated by 57%, at that more than 83% of these investments accounted for venture funds. For domestic legal entities, this indicator amounted to 94%, and the overall gain of the attachments of these investors in all CII for the first three months of 2014 was almost a third more, than in the last three months of 2013.

7. The Asset Structure of CII

In Q1 2014, the dynamics of composition and structure of CII assets by the types of instruments changed. Decrease of CII's assets in securities share in closed-end funds continued, in particular in venture ones (from 47.2% to 42.8% and from 28.7% to 28.2%, respectively), and hence in all CII together. However, in the sector of open-ended funds decrease of fund instruments' share restarted (from 48.1% to 47.0%) after the one-time quarterly growth at the end of 2013. And interval CII were the only sector where the securities' share increased (from 72.1% to 72.8%) (Chart 12).

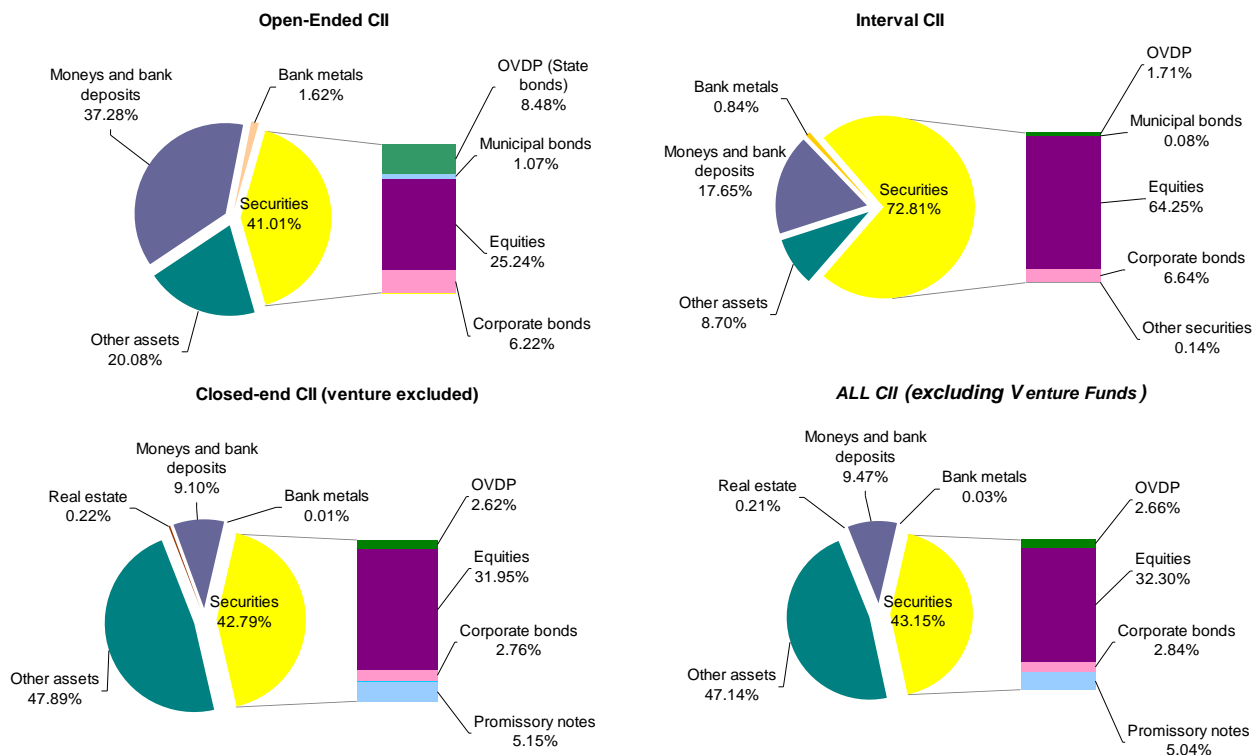


Chart 12. CII asset structure, venture funds excluded, by the types of funds as of 31.03.2014

The key changes in the aggregate CII portfolios structure in Q1 2014 were as follows:

Open-ended funds

Increase of the share of investments into such instruments:

- moneys and bank deposits – from 32.1% to 37.3%;
- equities – from 22.7% to 25.2%;
- “other assets”⁴ – from 18.7% to 20.1%;
- corporate bonds – from 6.0% to 6.2%;
- bank metals – from 1.2% to 1.6%;

Decrease:

- OVDP – from 18.8% to 8.5%.

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).

**Interval funds***Increase:*

- equities – from 64.0% to 64.3%;
- OVDP – from 1.3% to 1.7 %;
- bank metals – from 0.6% to 0.8%;

Decrease:

- “other assets” – from 9.6% to 8.7%
- corporate bonds – from 6.7% to 6.6%;

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

- “other assets” – from 40.1% to 47.9%;
- OVDP – from 1.2% to 2.6%;

Decrease:

- equities – from 34.6% to 32.0%;
- moneys and bank deposits – from 11.8% to 9.1%;
- corporate bonds – from 5.6% to 2.8%;
- promissory notes – from 5.8% to 5.2%.

Changes in the structure of assets **of venture CII** in Q4 2014, mostly, continued the trends of the previous quarter: "other" assets' share continued to grow, their investments became more by UAH 7 687.39 mln., as well as of savings certificates, and instead of this - decrease in shares of real estate, moneys, equities, promissory notes and securities in general, although the share of corporate bonds increased amid the significant increase in investments of venture funds into these securities – by UAH 1 071.49 mln. (Chart 13). Also the share of OVDP increased dramatically in 2.5 times in the assets of the sector, but its aggregate investments in state obligations remained negligible (less than 0.03%).

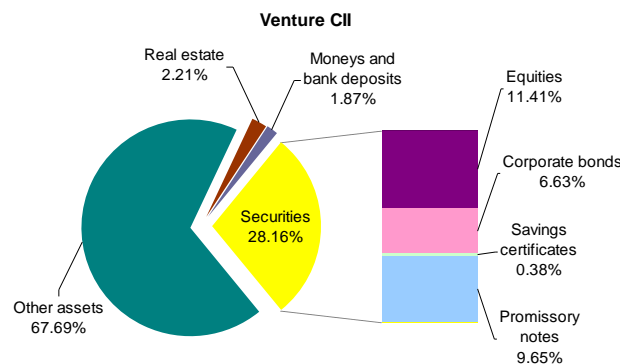


Chart 13. Venture CII asset structure as of 31.03.2014

The key changes in the structure of the aggregate **venture CII** portfolio in Q1 2014 were as follows:

Increase:

- “other assets” – from 66.6% to 67.7%;
- corporate bonds – from 6.3% to 6.6%;
- savings certificates – from 0.2% to 0.4%;

Decrease:

- promissory notes – from 10.5% to 9.7%;
- real estate – from 2.5% to 2.2%;
- moneys and bank deposits – from 2.3% to 1.9%;
- equities – from 11.5% to 11.4%.



Despite the reduction of securities share in aggregate assets of venture funds and in all CII in general, in absolute terms they rose by UAH 1 653.18 mln. (after -UAH 2 761.92 mln. in Q4 2013), and as of 31.03.2014, the securities portfolio of all CII valued UAH 54 315.81 mln.

In Q1 2014 *equities* again remained the greatest, by an aggregate value of investments, *class of securities in* aggregate portfolio of *all CII*. At that, the sum of investments of all CII in these securities increased by UAH 903.66 mln (after – UAH 921.13 mln. in the previous quarter) to UAH 23 499.14 mln., that was the largest absolute gain among fund instruments in CII assets. As a result, the share of equities in the aggregate portfolio of CII increased from 42.9% to 43.3% (Table 6).

Total value of investment *in promissory notes* for the first three months of 2014 again decreased sharply - by UAH 608.01 mln. (after – UAH 727.40 mln in Q4 2013) to UAH 17 572.60 mln. At that, decline affected only treasury bonds and derivatives, which were not too popular among other securities, where it was insignificant, so the share of promissory notes fell rapidly from 34.5% to 32.4%.

The volumes of CII assets into *corporate bonds* increased notably – they were UAH 842.59 mln. more than at the end of 2013 (after – UAH 1 404.59 mln. in Q4). So, their share in CII aggregate portfolio of securities grew from 21.2% to 22.1%, and this kept them in the third position with an aggregate value of UAH 12 008.41 mln.

Funds' investments in *savings certificates* continued to grow – cumulative assets into them rose by UAH 341.64 mln (after +UAH 237.58 mln in Q4 2013), to UAH 704.76 mln. At last, they expanded their share from 0.7% to 1.3%, advancing OVDP, which became more by UAH 172.57 mln. (0.6%).

Table 6. Value breakdown of CII aggregate securities portfolio, by the types of instruments, as of 31.03.2014

Security Type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	23 499 143 566	43.26%
Promissory notes	17 572 597 274	32.35%
Corporate bonds	12 008 406 243	22.11%
Savings certificates	704 757 618	1.30%
State bonds (OVDP)	321 185 040	0.59%
Derivatives	108 404 655	0.20%
Mortgage	99 075 639	0.18%
Municipal bonds	2 208 180	0.004%
Treasury bills	35 200	0.0001%
Total	54 315 813 415	100.00%

An aggregate CII portfolio of open-ended, interval and closed-end (except venture) funds in Q1 2014 also increased, in contrast to the previous quarter, though not as significantly: + UAH 4.24 mln. after –UAH 288.00 mln.

At that, assets in corporate bonds decreased significantly – UAH 228.90 mln., as opposed to the dynamics of October-December, 2013 (+ UAH 46.12 mln.). The share of these securities decreased from 11.7% to 6.6% (Table 7).

Table 7. Value breakdown of non-venture CII aggregate securities portfolio, by the types of instruments, as of 31.03.2014

Security Type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	3 340 685 400	74.85%
Promissory notes	521 409 329	11.68%
Corporate bonds	294 114 489	6.59%
State bonds (OVDP)	275 479 899	6.17%
Savings certificates	30 257 618	0.68%
Municipal bonds	1 147 940	0.03%
Total	4 463 094 675	100.00%



Investments of non-venture CII into OVDP grew the most – by + UAH 144. 23 mln, however their total value in non-venture CII portfolio comprised UAH 275.48 mln, and consequently they were on the 4-th step by the volume of investments of these funds. *Equities were traditional* leaders here, their aggregate value increased by UAH 68.26 mln. in Q1 (after – UAH 360.32 mln in Q4 2013), up to UAH 3 340.69 mln, and the share grew from 73.4% to 74.9%. *Promissory notes* kept the second position with a total investment of UAH 521.41 mln., which minor decreased for the quarter; their share fell from 11.9% to 11.7%.

Equities also held the confident championship in aggregate portfolio of **diversified CII**, investments in which, as of 31.03.2014, amounted to 77.7% of CII assets into securities (Table 8).

Table 8. Securities' portfolio of diversified CII, by the types of instruments, as of 31.03.2014

Security Type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	665 648 897	77.74%
Promissory notes	156 587 159	18.29%
Corporate bonds	21 797 484	2.55%
State bonds (OVDP)	11 095 494	1.30%
Municipal bonds	1 106 586	0.13%
Total	856 235 620	100.00%

8. The Rates of Return of CII

A surge of optimism, that took place on the stock market of Ukraine in late February 2014 amid the socio-political events and international reactions to them, despite the failure of early March and the subsequent sank of UX index, brought mostly positive results to the national collective investment institutions in Q1. While the total volumes of funds' investments into equities varied from 25% in open-ended and 32% in closed-end to 64% in interval CII, the majority of them, naturally, conceded on profitability indicators compared with the indexes of equities (Chart 14), although some of funds were on a level with or ahead of them.

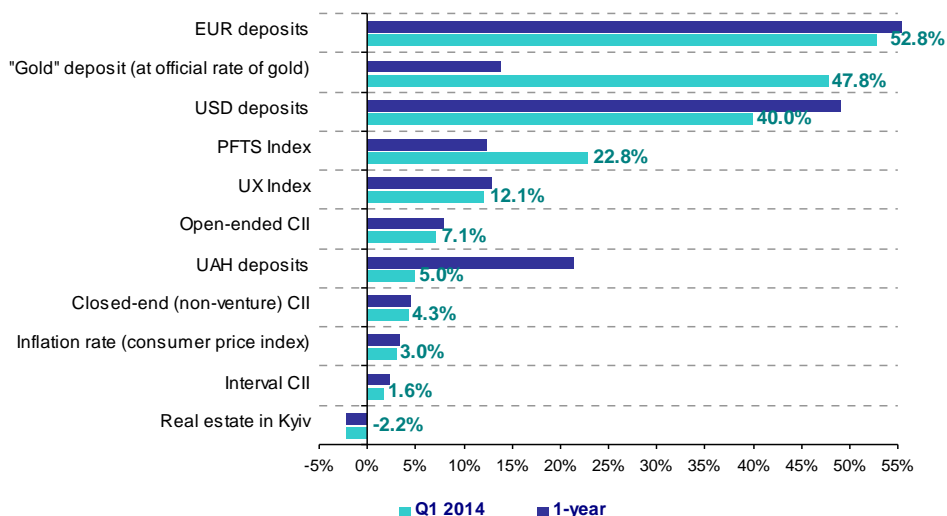


Chart 14. Average rates of return – CII, deposits, equity indexes and inflation rate in Q1 2014⁵

⁵ CII rates of return are calculated based on the reporting data for Q1 2014 (31 open-ended, 28 interval and 110 closed-end CII) and Q2 –Q4 2013 - 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 (before the previous month)). Return on real estate is calculated as an average based on the data on Kyiv real estate value from web portals: <http://www.domik.net>, <http://100realty.ua>, <http://realit.ua>.



Open-ended funds had the highest rates of return among non - venture CII in Q1, among them the average increase in the value of certificates was + 7.1% (after + 2.5% in Q4 2013). Thus, for the first time in a long period the sector was ahead over UAH deposits by quarterly yield (+ 5.0%), while by the average annual indicator it was still vastly inferior to them.

Deposits in foreign currency and gold were unconditional leaders among the directions of investments in the first three months of the year, that happened as a result of UAH devaluation by almost 40%. Annual deposits in euro, which showed -5.4% in Q4 2013, brought 52.8% in Q1 2014, deposits in USD - 40.0%, in gold – 47.8% (in the previous quarter was -7.9%)⁶.

Closed-end funds with their rates of return gained over inflation, which in Q1 increased significantly (officially up to 3.0%), and neared to UAH deposits, providing to their investors growth of investments' value on average 4.3% (after + 15.9% in Q4 2013).

Interval CII at this time had an average of + 1.6% (after + 0.5% in the previous quarter, or -1.6% without taking into account the extreme values), that was better on the background of real estate value's dynamics in Kyiv (-2.2%).

The range of the rates of return of individual funds within the sectors by types of CII in January-March, 2014 narrowed sharply, both top and bottom, and indicators of performance of all funds were distributed almost evenly, although among closed-end CII there were obvious the leader and the outsider with rates of return, respectively, twice more and twice less in comparison with the closest competitors' indicators.

Open-ended CII brought from -3.0% to + 22.4% (after -10.0% to + 46.1% in October-December, 2013). In general, 25 out of 31 open-ended funds (after 22 out of 31 in Q4 2013) increased the value of their contributors' investments, and 8 among them – were above UX index's growth for this time, 14 – above indexes of UAH deposits (after one fund in the previous quarter).

Interval CII generated income within the range of -8.6% to +11.1% (it was between -20.8% to +75.8% in Q4 2013). 17 out of 28 interval funds (after 13 out of 28) ensured increase of investments' value, and 8 of them – at or above UAH deposits' level (2 - in Q4).

Closed-end CII had from 23.3% to + 92.9% in Q1 2014 (in Q4 2013 – from 49.2% to + 878.9%). 51 out of 110 closed-end funds (after 55 out of 111) increased the investments of participants. At that, the number of those funds that exceeded the rates of return of UAH deposits, also increased – from 19 to 25, and 15 closed-end CII were above UX index.

Among the classes of **diversified publicly placed CII** (according to the structure of their assets in Q1 2014)⁷ *bond funds were the most profitable* (+ 18.8%, after + 3.3% in Q4 2013) (Chart 15). At that, 2 open-ended CII belonged to them with indicators of 17.6% and 20.0% (after 5 in the previous quarter).

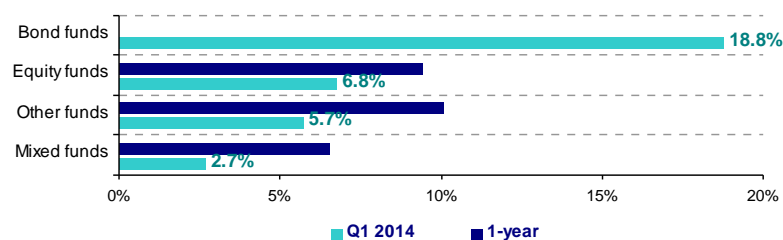


Chart 15. Average rates of return of diversified publicly placed CII, by the classes of funds in Q1 2014

Equity funds, which were outsiders at the end of 2013 (-1.6%), demonstrated an average yield higher than that of deposits in national currency, and significantly better than the quarterly indicator for the

⁶ It is necessary to take into consideration the liquidity of CII, in particular, of open-ended type, which allow to exit from investments on any working day without losing returns, unlike in case of bank deposits, the prevailing majority of which envisage re-calculation of interest income in case of an early release of moneys based on the rate of return on current accounts (on average 2.6% per annum). In the meantime, the rates of return calculated do not take into account possible commissions and other costs incurred at entry to/ exit from funds, as well as investment profit taxation.

⁷ See Methodology for Ranking AMC and CI (unit and corporate investments funds), Based on Their Performance Results on UAIB website: <http://www.uaib.com.ua>.



previous quarter (+ 6.8%). In Q1 2014, 8 open-ended and interval CII were again attributed to such funds by the classes of assets, however, the composition of them was somewhat different than in December, 2013. Indicators of individual funds were in the range from -1.1% + 16.1%.

"Other" funds were also more profitable than UAH deposits at this time (+ 5.7%, after + 5.9% in the previous three months). They are CII that did not meet the criteria for specialized classes - 12 open-ended, interval and 1 closed-end CII (there were 15 in Q4 2013), which had a yield for Q1 2014 from -2.6% to + 15.8%.

Mixed funds, to which 37 open-ended, interval and closed-end CII were attributed, as of 31.03.2014, (at the end of 2013 - 34), showed in Q1 an average of + 2.7% (-0.3% in Q4 2013).

No CII was attributed to money market funds for the third time in a row.

9. Resume

Q1 2014 brought to the stock market, including collective investment institutions, improvement of dynamics and increase of activity's results.

The *key trends of the Ukrainian CII market* in this time fixed certain changes in directions of industry's development. The amount of AMC and funds diminished. However, the amount of most popular venture unit CII continued to increase; they also provided again the lion's share of assets' under management increment. The outflow of capital from open-ended CII increased, however, the amount of acting funds did not change, as well as in the sector of interval funds.

CII rates of return, on average, continued to grow in all sectors by the types of funds, except closed-end ones, where, however, a number of funds surpassed the result of UX index for a quarter. An ascending dynamics of stock market and investments into equities from 1/4 of open-ended funds' money up to 2/3 of those of interval CII, as well as increased investments in corporate bonds, contributed to increased CII rates of return. Bond funds showed the best results, at the level of UAH bank deposits. Vast majority of diversified public CII showed again the positive values in terms of rates of return, at that the number of such funds grew up.

Venture funds were the most popular among the investors of CII in Q1 2014, as well as before. At that, reduction of *non-residents'* assets in funds continued, although it slowed twice. Vice versa, domestic investors strengthened the increase of investments more than in one and a half times. Notably, that an increase in CII assets from citizens of Ukraine was only three times less than the increase of the aggregate investments of legal entities, and the major part of this increase accounted for venture CII.

Finally, at the end of Q1 2014, domestic investors owned almost 84% of CII assets, and over 6% of them belonged to the Ukrainian retail investors.

Additional information on CII on the UAIB website:

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

For enquiries please contact: Anastasiia Gavryliuk (Senior analyst & International Relations Coordinator) – gavrylyuk@uaib.com.ua.

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

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

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

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

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