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1. The Stock Market

Despite the increase in geopolitical tensions in the world, in Q2 2014 *international stock markets* generally showed an optimistic behavior – growth in April-June results were recorded almost by all leading exchanges.

In key global markets equities sagged significantly only in early April. In the United States situation with employment and housing market continued to improve, while indicators of consumer sentiment, which significantly affects economy and stock markets there, demonstrated multidirectional dynamics.

In the EU, the European Central Bank was alarmed by the strengthening of euro with almost absent GDP growth and very low inflation in the euro zone, that threatened to create a deflationary problem for the region. Capital inflows to Europe, in particular to peripheral countries of the EU, had a bilateral effect and forced the ECB to the next revision of its policy. Finally, in early June, the EU Central Bank lowered the basic rate of refinancing from 0.25% to 0.15%, and for the first time made the negative deposit rate (-0.1%) as a penalty for dead bank liquidity to encourage banks in lending to the economy. Another factor of instability were elections to the European Parliament at the end of May, which caused heated debates in European society, in particular, the confrontation between ideas of the EU's development towards further political rapprochement between member-countries and the ones, which strengthened the role of national governments. Election results showed the increasing problem of "euro skepticism", particularly in the most powerful and influential EU countries. In June equities in some major markets, in particular, in France and Great Britain, went down.

Finally, in Q2 2014 the world's key indexes showed from +0.2% in China to +4.7% in the USA and 4.8% in Hong Kong. Japan and Europe were within +1-3% (Table 1, Chart1).

Table 1. National Markets' Stock Indexes' Dynamics in Q2 2014*

Indexes	31.03.2014	30.06.2014	Q2 2014 change	Year-to-date 2014	Annual change
UX (Ukraine)	1 019.72	1 226.69	20.30%	34.80%	41.57%
PFTS (Ukraine)	369.18	443.97	20.26%	47.73%	43.32%
RTS (Russia)	1 226.10	1 379.75	12.53%	-4.37%	8.18%
MICEX (Russia)	1 369.29	1 477.32	7.89%	-1.78%	11.04%
HANG SENG (Hong Kong)	22 151.06	23 221.52	4.83%	-0.10%	11.62%
S&P 500 (USA)	1 872.34	1 960.96	4.73%	6.51%	22.08%
DAX (Germany)	9 555.91	9 815.17	2.71%	2.75%	23.32%
FTSE 100 (Great Britain)	6 598.37	6 757.77	2.42%	0.39%	8.73%
DJIA (USA)	16 457.66	16 851.84	2.40%	2.11%	13.03%
NIKKEI 225 (Japan)	14 827.83	15 095.00	1.80%	-7.34%	10.37%
CAC 40 (France)	4 391.50	4 436.99	1.04%	3.77%	18.67%
SHANGHAI SE COMPOSITE (China)	2 033.31	2 036.51	0.16%	-2.91%	2.90%
WSE WIG 20 (Poland)	2 462.47	2 399.63	-2.55%	-0.06%	6.86%

* Based on the data of exchanges and Bloomberg Agency

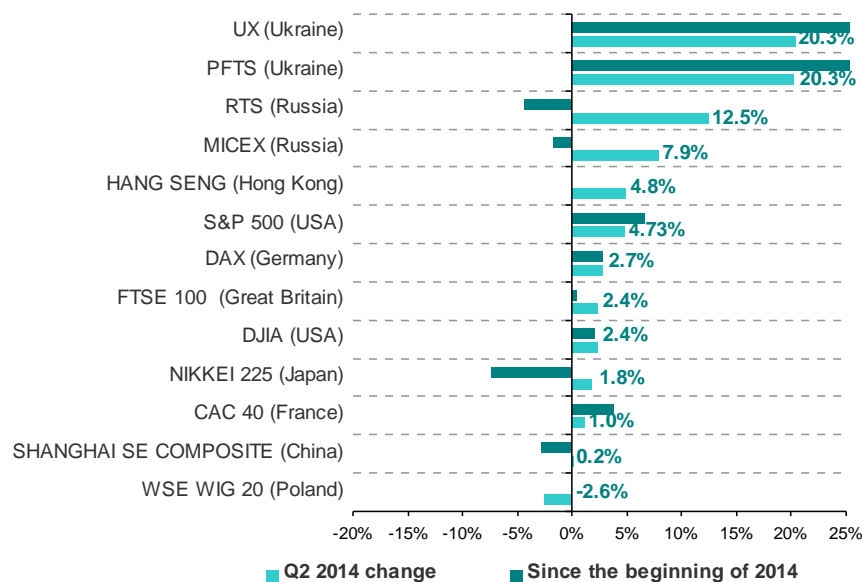


Chart 1. National Markets' Stock Indexes' Dynamics in Q2 2014

Dynamics of stock market indices in different countries of Eastern Europe in Q2 2014 was significantly different. Thus, in Poland the main equities index lost 2.5% for the quarter, while both parties directly involved in military conflict developed in eastern Ukraine in April, led by yield stock indicators. The beginning of international isolation, political and economic pressure of western investors, capital outflows and depreciation of the ruble did not prevent the growth of Russian indexes. Another military conflict – in Iraq – only helped stop the fall in prices of oil, which is critically important for the economy and stock market of the Russian Federation.

Aggravation of the situation in the eastern regions of Ukraine immediately affected the value of *Ukrainian equities*, but did not have a long and significant effect. Meteoric rise of equity indexes in May looked typically for the domestic market, however, was not entirely justified in conditions of military actions and existence of large economic risks. Obviously, the extraordinary investors' optimism on the Ukrainian stock exchanges at this time was due to the predominance of confidence in the government of the state and expectations of very fast economic reforms and stabilization of political system of Ukraine after successful holding of presidential elections, which took place simultaneously with the parliamentary elections in the EU and had a convincing result already in the 1-st round. Approval of financial assistance programs for Ukraine in the form of cheap loans from the United States, EU, IMF and the World Bank totaling approximately USD 40 bln. in 2014-2015 and the actual provision of more than USD 8 bln. during several months also contributed to investors' optimism regarding the prospects for Ukraine, despite the uncertainty about the military conflict with Russia.

Among negative factors that greatly affected the stock market in Q2 2014, and especially the collective investment institutions, were repeated government's attempts to change the tax treatment of CII, applying to them the general scheme of profits' taxation. This would mean actually triple collection of taxes from the funds, which belong to the investors of CI, after returning the investments to owners. However, by the end of the quarter, the government failed to provide voting on the relevant bills in the Parliament.

In April-May Ukrainian "blue chips" showed +20.3% by UX and PFTS indexes (after +12.1% in Q1).

As for indicators of trade performance on the stock exchanges during this period, they showed a wobbly nature of recovery: in the equity sector growth occurred on the main exchange, where these securities are sold (UX), and at the same time the investors' interest in debt securities – both corporate and government ones - reduced.



The volume of trades in equities on the Ukrainian Exchange (UX) increased compared with Q1 by 32.7% to UAH 1 585.25 mln., meanwhile on another key exchange, SE “Perspectyva”, it decreased by 90.2% (after -51.1% in Q1) to UAH 72.4 mln.

The volume of trades in corporate bonds on the UX continued to decrease rapidly – by 89.1% (after -51.9% in Q1) to UAH 12.9 mln., while decrease in the number of contracts was 24.6%. On SE “Perspectyva” value of contracts with these securities in Q2 2014 was 48.0% less (UAH 832.5 mln), while the number of contracts increased by 143.2%.

The total volume of trades in the stock (spot) market of UX increased by 23.5% (after -3.5% in Q1) to UAH 1 696.87 mln. In contrast, on SE “Perspectyva”, reduction in trade volumes increased – to -9.7% (after – 2.1%). The volume of trades in OVDP there decreased by 8.2% to UAH 74 318.43 mln., however, government debt securities strengthened their role as the main instrument traded on SE “Perspectyva” (98.6% of the trading volume, after 97% in Q1).

Overall, the total value of the concluded contracts in securities on all stock exchanges of Ukraine in Q2 2014, according to SSMNC data, decreased by 4.7%, including OVDP – by 6.9%, leaving, however, for these securities 85.2% of the total value of the contracts on all stock exchanges (after 87.3% in Q1). At the same time, volume of trades in equities increased by 21%, corporate bonds – by 34%.

2. The Number of AMC and CII

In Q2 2014 the number of asset management companies decreased by three AMC (-0.9%), as in the same period of 2013. The reduction lasted from the beginning of the year and was accompanied by creation of two new companies. Overall, as of 30.06.2014, there were 340 AMC acting in Ukraine, 7 less than at the beginning of 2014 (Chart 2).

The number of registered CII at the end of Q2 2014 also decreased – to 1591 funds (-6, or -0.4%, after -7 in Q1). At that, as per UAIB data, there were 5 newly registered CII (after 4 in Q1). Thus, the concentration in the market continued to grow – as of 30.06.2014, one AMC managed on average 4.68 funds (after 4.66 as of 31.03.2014).

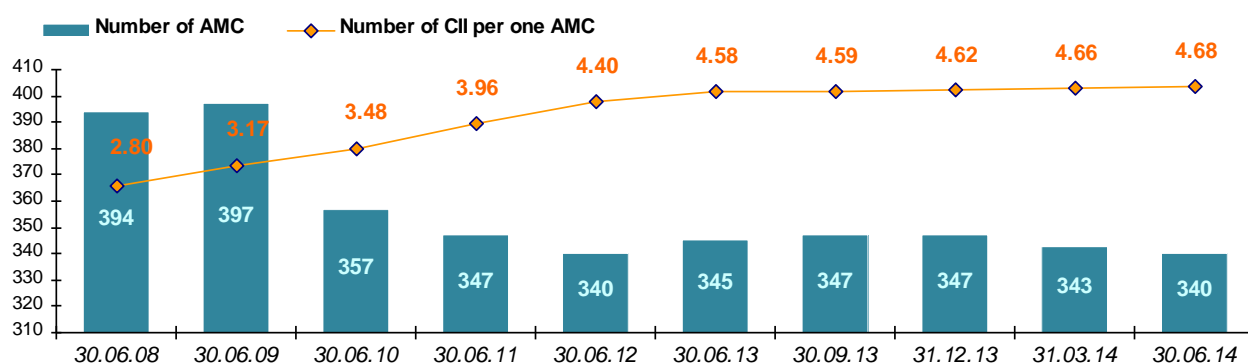


Chart 2. Dynamics of the Number of AMC and CII per one AMC in Q2 2008-2014

The number of CII that reached compliance with the standard to minimal asset volume also continued to decline, the same as in the previous quarter. Such funds became 10 less – in total 1233. The most narrowing at this time was experienced by closed-end CII, namely by the sector of non - diversified CIF (-9 funds). Venture CII also became fewer – by 3 UIF, that happened for the first time at least for the year, although 10 of such funds were recognized in Q2 2014.



Among diversified CII one interval UIF was eliminated (Table 2).

Despite the reduction in the number of venture CII (1027), their share in the total number of “recognized” funds continued to grow – from 82.9% to 83.3%, including UIF – to 69.9%.

Table 2. Dynamics of the Number of CII that Reached Compliance with the Standards in Q2 2014, by the Types and Legal Forms of Funds

	Total	UIF					CIF		
		O*	*	CD*	CNN*	CV*	*	CNN*	CV*
30.06.2013	1204	42	37	11	47	828	2	100	137
31.12.2013	1250	38	35	11	43	861	2	90	170
31.03.2014	1243	38	35	9	42	865	2	87	165
30.06.2014	1233	38	34	9	42	862	2	81	165
Q2 2014 change	-10 -0.8%	0 0.0%	-1 -2.9%	0 0.0%	0 0.0%	-3 -0.3%	0 0.0%	-6 -6.9%	0 0.0%
YTD 2014	-17 -1.4%	0 0.0%	-1 -2.9%	-2 -18.2%	-1 -2.3%	1 0.1%	0 0.0%	-9 -10.0%	-5 -2.9%
Annual change	29 2.4%	-4 -9.5%	-3 -8.1%	-2 -18.2%	-5 -10.6%	34 4.1%	0 0.0%	-19 -19.0%	28 20.4%

*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 30.06.2014, as per UAIB data, in the process of liquidation there were 5 open-ended, 4 interval UIF, 4 closed – end non-diversified UIF and 17 of the same CIF, 23 venture UIF and 1 CIF (totally 54, after 52 in Q1).

The number of funds which have not yet reached the normative of minimal volume standard of assets among all registered CII under AMC management in Q2 2014 continued to decline – from 70 to 62 (at the beginning of 2014 – 84), and their share among all managed CII decreased from 5.3% to 4.8% (at the beginning of the year – 6.3%), keeping the slowing trend of quantitative growth of CII industry.

The number of CII with public emission in Q2 2014 remained unchanged (- 3 funds since the beginning of the year) and amounted to 59 funds.

According to the asset structure-based classification¹, equity funds became 2 less for the quarter – 6 open-ended and interval CII; as of 30.06.2014 there were no bond funds (at the beginning of the year – 5), as well as money market funds, while the number of mixed funds grew again – 8 (after +3 in Q1) – to 45; «other funds», or such that did not meet the criteria to equity, bond and mixed funds, – became 8 (-4 for the quarter, -7 since the beginning of the year) (Chart 3).

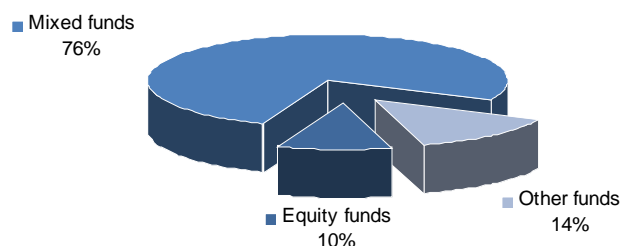


Chart 3. Diversified Publicly Placed CII, by the Classes of Funds as of 30.06.2014

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>



3. The Regional Distribution of AMC and CII

During Q2 2014 in Kyiv 2 AMC obtained licenses for assets management, while 4 left the market, so the total number of AMC in the metropolitan region decreased to 239. In Odessa region at the same time one company was closed, but the region preserved its staying among the leaders by the number of market participants (10 AMC). In other the largest in business terms regions situation did not change (Chart 4). So, the share of Kyiv and region by the number of AMC in Q2 2014 remained practically unchanged (70.3%).



Chart 4. Regional Distribution of AMC Number as of 30.06.2014.

The number of CII under management in metropolitan region in Q2 2014 was also decreased, though its share in regional distribution of CII by the number of funds narrowed slightly, the same as in the first three months of the year – to 71.1% (after 71.2% in Q1).

The similar changes occurred also in Dnipropetrovsk region – its share narrowed from 8% to 7.9%. In contrast, the weight of Kharkiv, Donetsk and Zaporizhzhia symbolically increased. Other regions of Ukraine reduced again their combined share in the total number of CII under management almost by 1 p.p. – to 9.5% of the total number of CII (after 9.7% at the beginning of the year).

In the regional distribution of CII assets under management the main trend also remained the same since the beginning of 2014: share of Kyiv was increased (from 78.9% to 79.2%). Another region which boosted its share in aggregate assets of the market, in contrast with Q1, was Dnipropetrovsk (from 6.5% to 6.8%), while the share of Donetsk dropped below the level of the beginning of the year (from 5.0% to 4.7%). The reduction also affected the other leading regions (from 4.7% to 4.6%) (Chart 5).

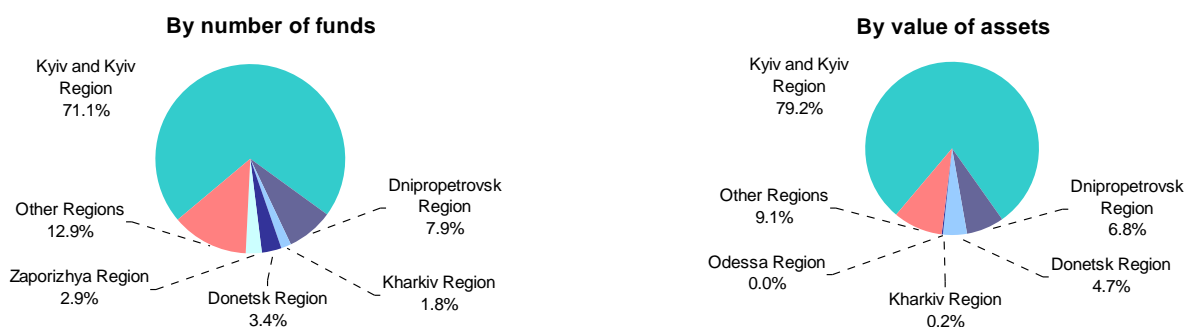


Chart 5. Regional Distribution of CII by the Number of CII and the Value of Their Assets under Management, as of 30.06.2014



4. The Asset and the Net Asset Value of CII

In Q2 2014 assets' reduction returned back to all sectors of CII, except venture one, which growth provided a significant growth of the whole industry. Moreover, it happened against the background of reducing both the total number of operating funds, which provided reporting, and, in particular, venture CII (-14). Assets of venture funds increased by UAH 13.2 bln. (after +8.6 in Q1). Non-venture CII experienced the reduction of total assets for the quarter by UAH 373 mln. (after + UAH 1 bln. in January – March) (Chart 6).

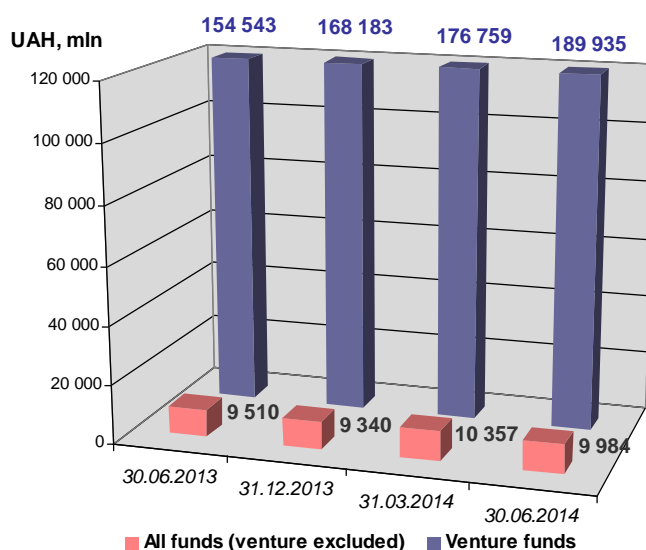


Chart 6. Dynamics of the Assets Value of CII in Q2 2013-2014

As of 30.06.2014, **the total assets of CII** comprised UAH 199 919.18 mln. Quartely asset growth increased to +UAH 12 802.40 mln. (+6.8%, after +5.4% in Q1). Increase of industry's assets happened only due to venture CII, whose growth accelerated to + UAH 13 175.41 mln. (+7.5%, after +5.1% in Q1), and at the end of the quarter assets of these funds amounted to UAH 189 934.80 mln (Table 3).

The net assets of CII grew in Q2 2014 by UAH 9 591.99 mln. (+5.8, after +4.8% in Q1) to UAH 175 642.97 mln. – also due to the *venture* sector. Thus, its NAV increased by UAH 9 889.98 mln (+6.3% - the growth accelerated by 30% compared with the previous quarter) and reached UAH 166 610.39 mln.

Table 3. Dynamics of the NAV of CII, by the Types of Funds in Q2 2013-2014, UAH M

Funds	30.06.2013	31.12.2013	31.03.2014	30.06.2014	Q2 2014 change	YTD 2014	Annual change
Open-ended	147.02	103.20	93.27	85.95	-7.9%	-16.7%	-41.5%
Interval	143.98	122.28	123.27	122.28	-0.8%	0.0%	-15.1%
Closed-end (venture excluded)	8 141.54	8 318.15	9 114.03	8 824.36	-3.2%	6.1%	8.4%
All funds (venture excluded)	8 432.54	8 543.63	9 330.57	9 032.58	-3.2%	5.7%	7.1%
Venture	137 155.82	149 880.84	156 720.41	166 610.39	6.3%	11.2%	21.5%
All funds	145 588.36	158 424.47	166 050.99	175 642.97	5.8%	10.9%	20.6%

Reduction of aggregate NAV of open-ended CII in April-June slowed to UAH 7.33 mln. (-7.9%, after -9.6% in Q1). At that, it happened again due to the withdrawal of funds by investors, that occurred simultaneously with the primary growth of portfolios value of open-ended funds in conditions of rise in the stock market. Thus, maintaining the downward trend of the net assets dynamics in the sector was caused, on the one hand, due to the desire of investors to capture profits from the rise in prices, which was perceived by them as a short-term one, against the background of significant growth of market's and other risks in the industry; on the other hand, the quarterly decline in NAV remained almost stable due to



appeared positive expectations of the part of investors regarding development of the situation in the market, that led to some inflows into funds. Finally, as of 30.06.2014 the net asset value of 31 open-ended CII comprised UAH 85.95 mln.

The interval CII sector in Q2 2014 held the “lateral” trend: NAV of funds of this type decreased almost by UAH 1.0 mln., or 0.8% (after + UAH 1.0 mln. in Q1), at that this was three times less than decrease in the value of total assets of these CII (- UAH 2.97 mln.), demonstrating positive dynamics of assets’ structure. Finally, as of 30.06.2014, the aggregate NAV of interval CII comprised UAH 122.28 mln.

Decrease in net assets of *closed-end non –venture CII* was also less than reduction of their total assets: - UAH 289.68 mln. against – UAH 362.41 mln. Compared with Q1, dynamics of the sector deteriorated, but this was partly caused by reduction in the number of CII, that provided reporting (-9), and since the beginning of the year the net assets of the sector increased by UAH 506.20 mln.

Decrease in NAV of closed-end CII in Q2 2014 comprised more than 97% of this indicator for all non-venture funds. At the same time, growth of the net assets of the sector from the beginning of 2014 exceeded the losses of NAV of open-ended CII: growth for closed-end CII for half-year amounted to UAH 506.2 mln., and for all CII, except venture – UAH 489.0 mln.

More moderate decrease in net assets of closed-end and interval CII compared with open-ended ones provided them with strengthening of their positions in industry in terms of volume of NAV. Thus, the share of closed-end CII grew again, albeit symbolically, and remained within 97.7%; interval funds increased their weight from 1.32% to 1.35%, and open-ended CII for the first time fell below 1% (Chart 7).

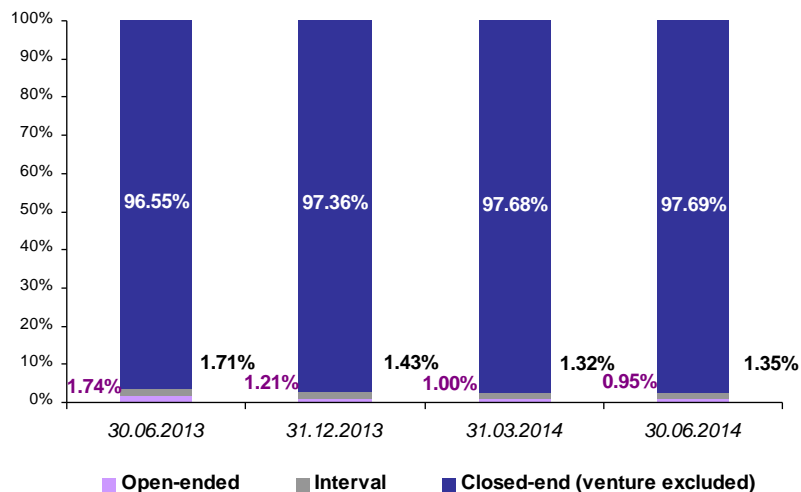


Chart 7. Dynamics of Non-Venture CII NAV Breakdown by the Types of Funds in Q2 2013-2014.

Venture funds, due to the rapid NAV growth and against negative dynamics of other CII sectors in Q2 2014 increased their weight in industry’s net assets – from 94.4% to 94.9% (Chart 8).

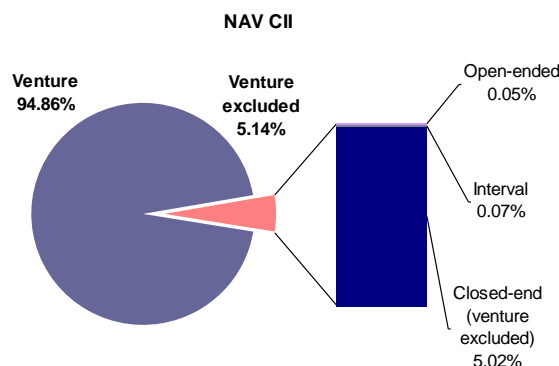


Chart 8. Distribution of CII NAV by the Types of Funds as of 30.06.2014



5. Net Capital Flow in Open-Ended CII

The outflow of capital from the open-ended CII in Q2 2014 lasted and practically recreated the picture of the first three months of 2014. Sector suffered the largest losses in April (the same as in January – more than UAH 10 mln). But in May, when stock indexes in Ukraine rose by almost 11%, small net inflow was observed among open-ended CII (+UAH 0.4 mln) – the first one in 14 months. And in June the market returned back to the downward trend and outflow amounted to – UAH 2.1 mln., although it was 4 times lower than at this time a year ago (Chart 9, table 4).

In Q2 2014 the role of individual funds in total movement of capital increased even more: 99% of total outflows in the quarter accounted for 3 funds, one of which “provided” 85%. In May the primary part of net inflow (65%) also belonged to one fund. The “leadership” role by the largest net outflow during one year was retained by the one mixed fund (with the balanced investment structure), but in June this “championship” went to another balanced fund that began to curtail its activity.

Thus, at the beginning of Q2 2014 some investors withdrew funds in conditions of significant growth of risks in the market and after some recovery at the end of March, and other investors - at the end of the quarter – fixed revenues of May and left the closing fund.

Number of open-ended CII, which had net inflows during the quarter, increased from 2-4 to 5-8 monthly. The value of net attraction by such funds also more than doubled – from UAH 0.45 mln. in Q1 to more than UAH 1 mln. in Q2 2014.

Another positive tendency was reduction of the number of funds, that had a net outflow, from 9-13 in January – March to 7-10 in April – June.

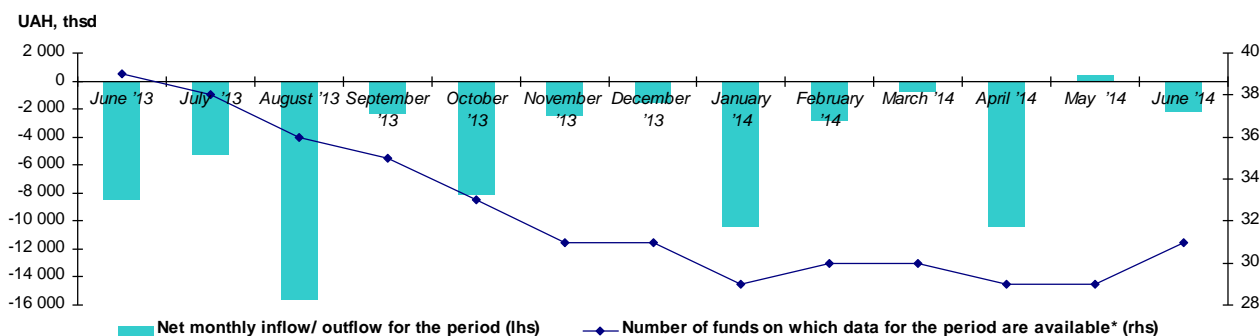


Chart 9. Monthly Net Inflow/Outflow of Capital in Open-Ended CII in June 2013-2014 *.

* Based on daily data

Table 4. Monthly Net Inflow/Outflow of Capital in Open-Ended CII in June 2013-2014 *.

Month	Net monthly inflow/ outflow for the period	Number of funds on which data for the period are available
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
April '14	-10 437	29
May '14	398	29
June '14	-2 130	31

* Based on daily data



An aggregate net outflow from the open-ended CII in Q2 2014 decreased by 14% to UAH 12.2 mln. (after increasing by 17% in Q1). A year ago in April-June an outflow of capital from the market was almost the same (- UAH 12.4 mln.), and after that it did not rise above – UAH 12 mln. (Chart 10).

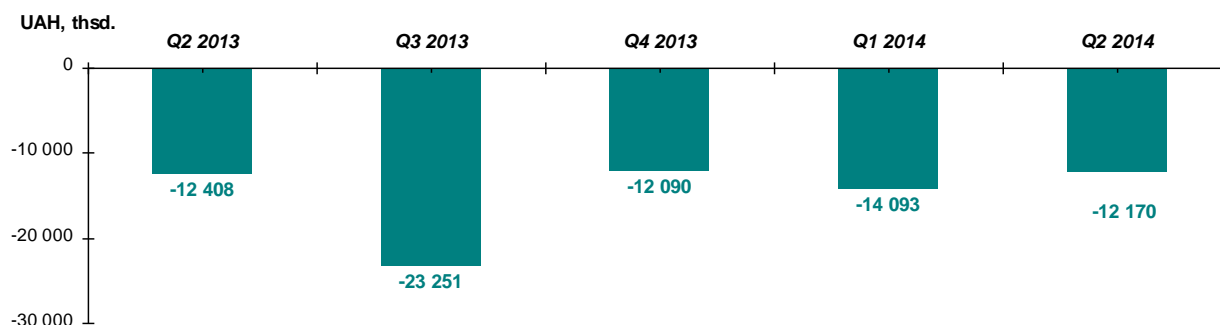


Chart 10. Net Inflow/Outflow of Capital in Open-Ended CII in Q2 2013-2014

Thus, the negative movement of investors' funds from the open-ended CII lasted the 12-th consecutive quarter, during which the total net outflow amounted to UAH 182.94 mln. Since the beginning of 2014, as of 30.06.2014, it comprised UAH 26.26 mln., and for the one year period UAH 61.60 mln. were withdrawn from the open –ended CII (-0.4% compared with the indicator at the end of Q1).

Despite the stabilization of capital's movement in funds, its impact on the dynamics of their net assets increased even more, due to the long preceding narrowing of the sector and closing of some of the funds. Thus, in April-June 2014 net capital outflow amounted to 166% of decrease in net assets in the sector (in January – March – 142%). Also, an outflow comprised 101% of annual decrease in NAV of open-ended CII, after 95% in Q1 and 84% at the beginning of the year.

At this time **European UCITS funds** continued to receive additional capital inflows from investors. In April-May figures of net inflow were slightly lower than in January – February (EUR 62 and 43 bln. against EUR 69 and 48 bln.), but still supported the trend of the record year for the industry by attraction of additional capital. Thus, after net sales amounted to EUR 229 bln. in 2013, only for the 5 months of 2014 UCITS funds received injections amounted to EUR 256 bln., and during January-May UCITS and non – UCITS funds together attracted EUR 321 bln².

6. The Investors of CII

In Q2 2014 **legal entities registered in Ukraine** preserved their leadership among CII investors both by quantity (Table 5) and by value of investments (Chart 11)³, which increased compared to the end of March by UAH 9 685.83 mln. (after +6 020.61 mln in Q1). As a result of such large scale increase the share of these investors in net assets of aggregate NAV significantly increased during the quarter – from 77.5% to 78.8%. At that 95% of investments' increase accounted for venture funds.

Quantitatively, legal entities –residents occupy only 5.3% in all CII, due to the very large number of small investors in several *interval CII* (reorganized funds, which were established before the Law of Ukraine "On CII" was passed).

At the same time in *venture CII* Ukrainian enterprises quantitatively constitute almost 98% of all investors and own 79.4% of the net assets of these funds.

Depositors of this category constituted only 1.2% *in open-ended CII* in Q2 2014, but in terms of NAV they were the second largest group (31.9%), although their share in monetary terms decreased

² See. [EFAMA Investment Fund Industry Fact Sheet \(May 2014\)](#).

³ Excluding CII bearer securities in circulation



significantly for the quarter (from 43.6%) due to the withdrawal of more than UAH 14 mln., and increased investments of Ukrainian citizens.

Table 5. Investors of CII by Categories as of 30.06.2014, % of the Total Number

Funds	Legal entities		Natural persons	
	residents	non-residents	non-residents	non-residents
Open-ended	1.21%	0.1305%	98.60%	0.0653%
Interval	0.01%	0.0002%	99.99%	0.0024%
Closed-end non-venture	9.29%	0.5819%	89.95%	0.1763%
All funds (non-venture)	0.07%	0.0047%	99.92%	0.0038%
Venture funds	97.95%	1.1726%	0.85%	0.0214%
All funds (venture included)	5.29%	0.0669%	94.64%	0.0048%

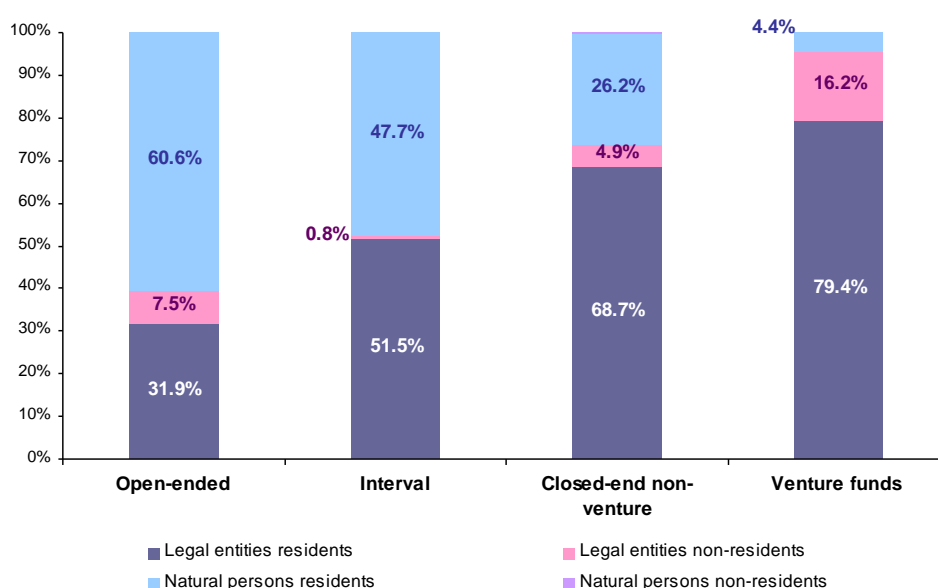


Chart 11. CII NAV Breakdown by the Categories of Investors as of 30.06.2014, share of NAV

Natural persons-residents in April-June mainly reduced their investments in CII, but the overall negative rate was caused mostly by the dynamics in the sector of closed-end funds: -UAH 670.20 mln. against total -UAH 487.33 mln. in all CII (after +UAH 2 199.45 mln. in Q1). In these funds citizens of Ukraine were the largest category of investors by share in NAV – almost 90% at the end of Q2 2014. At the same time, due to the largest withdrawal of funds by them compared to other participants of these funds and increased investments in the sector from the domestic enterprises, the share of natural persons-residents there reduced from 32.8% to 26.2%.

In venture CII, as well as in the open-ended ones, citizens of Ukraine in Q2 2014 increased their investments. And if in the first above mentioned ones growth slowed more than 10 times (+UAH 1 834.38 mln.), then in open-ended CII it compensated funds that were withdrawn by these investors in Q1 (+UAH 3.72 mln., after -UAH 2.10 mln). As of 30.06.2014 in *venture funds* citizens of Ukraine amounted to nearly 0.9% by number and 4.6% by NAV (after 3.6% in Q1).

Significant increase of citizens' weight in net assets of *open-ended funds* occurred also due to withdrawal of funds by legal entities in amount of UAH 8.47 mln. Finally, retail investors from Ukraine accounted for 98.6% of all investors in this sector and held 60.5% of NAV (after 50.3% in Q1).

In all CII, the share of natural persons - residents, in contrast to Q1, decreased – from 6.2% to 5.6%.



The largest number of participants, in particular natural persons, was in the *interval CII*, were they constituted 99.9% of all investors, but in the most popular funds of this type their investments on average were scarce. So, the share by NAV of retail investors – citizens of Ukraine in this sector accounted only for 47.7% (virtually unchanged for the quarter).

Non-residents, namely *institutional investors* in Q2 2014 changed their behavior concerning investing in Ukrainian CII and increased their investments by UAH 435.39 mln. (after –UAH 510.94 mln. in Q1), at that in venture funds their share increased by UAH 501.94 mln., and in other closed-end CII it decreased by UAH 67.31 mln. Finally, as of 30.06.2014, foreign legal entities owned 15.6% of NAV of all CII (after 16.3% in Q1), from 0.8% in interval funds to 16.2% in venture ones. By the number of participants this category had 1.17% in venture and 0.07% in all CII.

7. The Asset Structure of CII

In the context of a sharp rise of stock indices in Q2 2014, some of the previous months' trends in dynamics of composition and structure of CII assets **by the types of instruments** changed. Thus, the share **of securities** in CII assets increased as a whole and for each sector by type of funds. In particular, in the sector of open-ended funds the total share of funds' instruments in portfolios increased from 41.0% to 45.6%, in interval ones - from 72.8% to 75.6%, in closed-end – from 42.8% to 43.1% (Chart 12). At that, however, in absolute figures volume of assets in securities grew only in the sector of interval CII and also in venture ones.



Chart 12. CII Assets Structure, Venture Funds Excluded, by the Types of Funds as of 30.06.2014

Equities played the leading role in increasing of investments (or their value) in securities, although in open—ended and interval funds the share of government bonds also increased. However, in the assets of open-ended CII there was some reduction in the amount of investments *in OVDP*. The volume and share of assets *in corporate bonds* in Q2 2014 decreased in all sectors of the CII.



The most reduction in the assets of open-ended and interval CII was experienced **by monetary resources** (cash and bank current and deposit accounts), which accordingly affected their weight in the structure of the aggregate portfolios of funds of corresponding types. In closed-end CII the aggregate assets held in money increased both in absolute terms and in relation to other components of aggregate portfolio.

Among other major changes in the composition and structure of CII assets in April – June there was significant reduction of cumulative “other” assets⁴ and of their share in the closed-end non-venture funds.

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

Open-ended funds

Increase of the share of investments into such instruments:

- equities – from 25.2% to 32.0%;
- “other assets” – from 20.1% to 22.0%;
- OVDP – from 8.5% to 8.9%;

Decrease:

- moneys and bank deposits – from 37.3% to 30.8%;
- corporate bonds - from 6.2% to 4.3%;

Interval funds

Increase:

- equities – from 64.3% to 68.3%;
- “other assets” – from 8.7% to 9.3%;
- OVDP – from 1.3% to 1.7%;

Decrease:

- moneys and bank deposits – from 17.7% to 14.4%;
- corporate bonds - from 6.6% to 5.2%.

Closed-end (venture excluded) funds

Increase:

- equities – from 32.0% to 36.0%;
- moneys and bank deposits – from 9.1% to 10.9%;

Decrease:

- “other assets” – from 47.9% to 45.8%;
- corporate bonds – from 2.8% to 1.3%;
- promissory notes – from 5.2% to 4.0%;
- OVDP – from 2.6% to 1.8%.

In the asset structure of **venture CII** in Q2 2014, major changes were opposite to those that occurred in the previous three months. The share of securities grew symbolically - from 28.22% to 28.24% (Chart 13), but in monetary terms assets' increase in them was significant (+ UAH 3 771.97 mln.) and gave the lead only to the traditionally large - scale growth of “*other*” assets (+UAH 8 601.18 mln.). The share of last ones in the aggregate portfolio of venture CII, however, fell slightly, as the relative growth of these assets was less than, for example, the one of total investments *in equities and moneys* (+7.2% vs. 18.3% and 24.9% respectively).

The assets of the sector *in promissory notes* grew too (+UAH 870.03 mln.), but also in slow pace, that led to a reduction of their share in the consolidated assets.

Among other notable changes - assets in *savings certificates* dramatically decreased and almost disappeared from the portfolios of venture CII (-UAH 659.50 mln., -97.8%).

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)

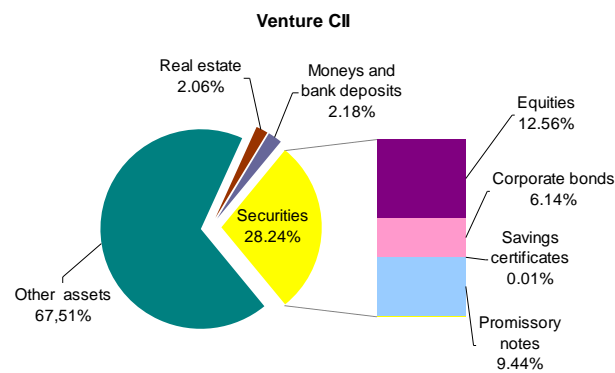


Chart 13. Venture CII Assets' Structure as of 30.06.2014

The key changes in the structure of the aggregate **venture CII** portfolio in Q2 2014 were as follows:
Increase:

- equities – from 11.4% to 12.6%;
- moneys and bank deposits – from 1.9% to 2.2%;
- savings certificates – from 0.4% to 0.01%;

Decrease:

- corporate bonds – from 6.6% to 6.1%;
- promissory notes – from 9.7% to 9.4%;
- “other assets” – from 67.7% to 67.5%;
- real estate – from 2.2% to 2.1%.

The aggregate assets of all funds in securities in Q2 2014 increased by UAH 3 657.65 mln., i.e. more than twice faster than in Q1 (+UAH 1 653.18 mln.), and as of 30.06.2014, the securities' portfolio of all CII was UAH 57 973.46 mln.

Equities remained to be the largest class **by the total value of investments** among **all classes of securities in Q2 2014**. The growth of assets in these papers for three months accelerated almost 4.5 times – to UAH 3 974.00 mln., resulting in the equities' share in CII at the end of June 2014 amounted to UAH 27 473.14 mln. Share of these instruments in the aggregate CII portfolio increased from 43.3% to 47.4% (after 42.9% at the beginning of the year).

Table 6. Securities' Portfolio of CII by the Types of Instruments as of 30.06.2014

Security Type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	27 473 140 971	47.39%
Promissory notes	18 309 700 899	31.58%
Corporate bonds	11 790 757 751	20.34%
State bonds (OVDP)	209 541 986	0.36%
Derivatives	96 694 806	0.17%
Mortgage	77 130 615	0.13%
Savings certificates	15 000 000	0.03%
Treasury bills	1 037 200	0.002%
Municipal bonds	455 345	0.0008%
Total	57 973 459 572	100.00%

The total value of investments *in promissory notes* grew in Q2 2014 (+UAH 737.10 mln.) – due to the venture CII, to UAH 18 309.70 mln., overtaking reduction in January-March (- UAH 608.01 mln.). Against the dynamics of equities, the share of promissory notes declined again - from 32.4% to 31.6%.



Among other the largest categories of securities by volume of investments, tangible changes affected also the other debt securities – *corporate bonds* (-UAH 217.65 mln. after +UAH 842.59 mln. in Q1), *OVDP* (-UAH 111.64 mln., after +UAH 172.57 mln. in Q1) and *saving certificates* (-UAH 689.76 mln. after +UAH 341.64 mln.) – the total decrease was more than UAH 1 bln. Investments in *treasury bills* also increased dramatically (about 30 times), but only to UAH 1.04 mln.

Finally, the share of *corporate bonds* in aggregate portfolio of CII securities decreased from 22.1% to 20.3% (21.2% at the beginning of the year), but they “with a wide margin” kept the third by popularity place with a total value of UAH 11 790.76 mln.

An aggregate portfolio of **open-ended, interval and closed-end (venture excluded) CII** in Q2 2014 sustained reduction (-UAH 114.32 mln., after +UAH 4.24 mln. in Q1). Total investments of funds in all types of securities decreased, *except for equities* (+UAH 292.43 mln., after +68.26 mln.), which were there in total amount of UAH 3 633.11 mln. (83.5%, after 74.9% in Q1) (Table 7).

Table 7. Securities' Portfolio of Non-Venture CII by the Types of Instruments, as of 30.06.2014

Security Type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	3 633 112 609	83.54%
Promissory notes	388 479 596	8.93%
OVDP	185 463 151	4.26%
Corporate bonds	141 263 185	3.25%
Municipal bonds	455 345	0.01%
Total	4 348 773 885	100.00%

Assets in *corporate bonds* fell the most, the same as at the beginning of the year, - by UAH 152.85 mln. (after – UAH 228.90 mln. in Q1). Their share in the portfolio of financial instruments of non-venture CII reduced for the quarter from 6.6% to 3.3%, dropping these tools on the fourth step. As a result, *OVDP* were the third ones; in April-June they became less by UAH 90 mln. (4.3%), after +UAH 144.23 mln in Q1 (6.2%).

The second position by volume of investments, which amounted to UAH 388.48 mln., was kept by *promissory notes*, although the assets in them decreased by UAH 132.93 mln. (after +UAH 26.25 mln.), and their share continued to decline – from 11.7% to 8.9%

In diversified CII in Q2 2014 the traditional leaders - *equities* were the engine of growth; as of 30.06.2014, investments in them amounted to UAH 1 123.39 mln.(+UAH 457.74 mln.), or 85.2% of the securities' portfolio of these funds (after 77.7% in Q1)(Table 8).

Table 8. Securities' Portfolio of Diversified CII by the Types of Instruments, as of 30.06.2014

Security Type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	1 123 389 926	85.16%
Promissory notes	167 094 054	12.67%
Corporate bonds	17 420 731	1.32%
OVDP	10 797 109	0.82%
Municipal bonds	430 160	0.03%
Total	1 319 131 980	100.00%

8. The Rates of Return of CII

In conditions of continuing euphoria in the stock market in Q2 2014, that was reflected in the sharp rise of indexes, the value of assets of collective investment institutions, and along with it, their rates of return, continued to grow, though, in general, much slower (among open-ended, interval and closed-end CII there were only 6 funds, where the investments in equities constituted at least 80%) (Chart 14).

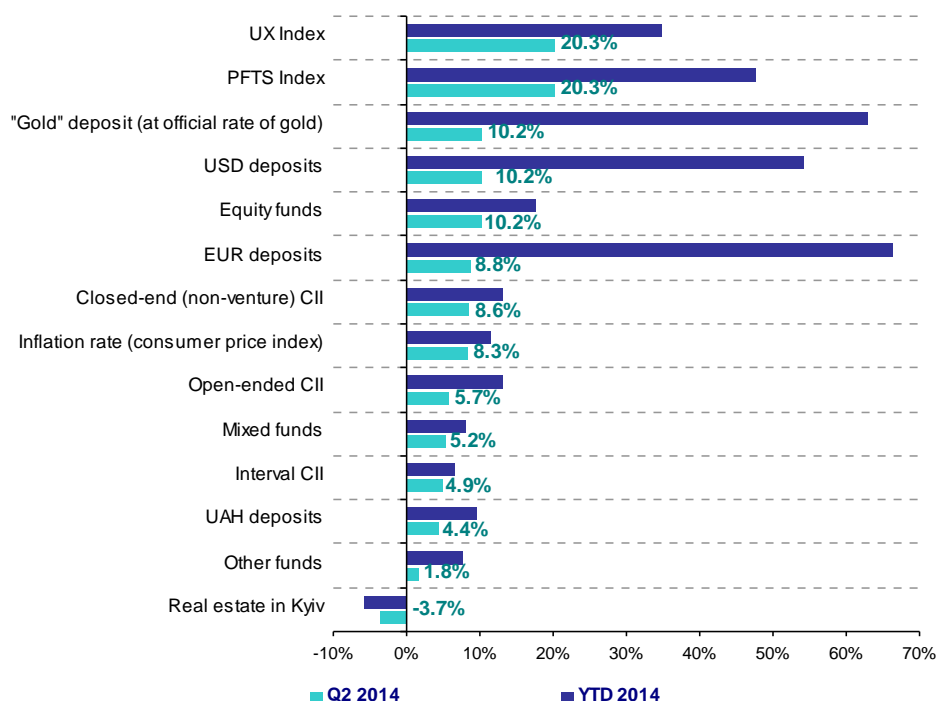


Chart 14. Average Rates of Return of CII, deposits, equity indexes and inflation rates in Q2 2014⁵

Closed-end funds had the highest average rates of return among non-venture CII - +8.6%, that was almost at the level of EUR deposits (+8.8%) and compensated the inflation rate (8.3%). Continued growth of foreign currencies' rates as well as gold's one, contributed to the growth of rates of return of currency and "gold" deposits, which also left behind by this indicator the majority of CII in this period⁶.

Open-ended and interval CII brought on average + 5.7% and +4.9% respectively. Thus, both sectors this time were ahead of UAH deposits by quarterly rates of return (+4.4%).

The range of the rates of return of individual funds within the sectors by the types of CII in April-June 2014 expanded and mainly shifted up (except for open-ended CII). In each sector the funds with positive indicators remained in the majority.

Open-ended CII brought from -4.7% to +20.0% (after -3.0% to +22.4% in Q1). Totally, 22 open-ended funds out from 31 (after 25 out from 31) increased the investments of depositors, among which 8 were on the level or above of the rates of return of USD and "gold" deposits, 12 – of EUR deposits, 14 – of UAH deposits (the same as in Q1).

Interval CII generated income within the range of -15.3% to +71.2% (after -8.6% to +11.1%).

Growth of the value of investments was ensured by 15 out of 28 interval funds (after 17 out of 28), 4 of them – at or above the level of rates of return of USD and "gold" deposits, 6 – of EUR deposits, 10 – of UAH deposits.

Closed-end CII had from -51.8% to +299.6% in Q2 2014 (after -23.3% to +92.9% in Q1). 50 out of 96 closed-end funds multiplied the funds of participants (after 51 out of 110), 21 of them – at or above the level of USD and "gold" deposits, 25 – of EUR deposits, 31 – of UAH deposits.

⁵ CII rates of return are calculated based on the reporting data for Q2 2014 2014 for 31 –open-ended, 28- interval, 96-closed-end CII and for Q1 2014 for 31-en-ended, 28-interval, 110 – closed end CII – see Ranking of the rates of return of [open-ended, interval and closed-end funds](#). The provided inflation rate 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 of Kyiv real estate value from web portals: <http://www.domik.net>, <http://100realty.ua>, <http://realit.ua>.

⁶ For an adequate comparison of rates of return 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.



Since the beginning of 2014 closed-end non-venture CII had on average +13.3%, open-ended ones – 13.2%, interval CII - +6.6%.

Prices of real estate in Kyiv continued to decline, and its average rate of return continued to fall (-3.7% in Q2 2014, -5.8% since the beginning of the year).

Among the classes of **diversified publically placed CII** (according to the structure of their assets in Q2 2014)⁷ *equity funds* were the most profitable; they increased their rates of return compared with Q1 (+6.8%) and provided on average the same 10.2% as the most profitable in this period currency deposits (Chart 14). Indicators of individual funds were in the range from – 0.03% to +19.96%. There were 2 open-ended and 4 interval CII, which met the criteria for a class of equity funds as at the end of the second quarter as well as at its beginning.

Mixed funds (25 open-ended, 16 interval and 4 closed-end CII) were also more profitable than UAH deposits in Q2 2014 (+5.2%, after +2.7% in Q1). The rates of return of these funds were in the range from -15.3% to 71.2%.

“Other” funds, namely 3 open-ended and 5 interval CII, which in Q2 2014 did not meet the criteria for special classes of assets, increased the investments of their depositors in this time on average by 1.8% (such CII brought +5.7% in Q1). The rates of return of these funds were in the range from -8.6% to +25.0%.

In Q2 2014 there were no bond funds and money market funds, according to the established criteria.

9. Resume

Increased volatility in the stock market amid growing political and economic risks and expectations in Ukraine in Q2 2014 led to a rise of stock indices and provided some positive results for the collective investment institutions.

In particular, not only domestic, but also foreign investors in CII became more active, but open-ended funds continued to lose capital, and some of them – left the market. The similar steps of business eliminating were also undertaken by some asset management companies in relation to a number of closed-end funds, although in the sector of venture CII an accumulation of assets was traditionally observed.

The main trends of the Ukrainian CII market, which emerged at the beginning of the year, in April - June were confirmed. Thus, the number of AMC and funds continued to decline, and this time it happened also in the most popular equities venture CII. They were, however, as before, the engines of assets' under management growth, including on the expense of non-resident investors. However, domestic legal entities were invariably the main investors in venture and other closed-end funds in Q2 2014. Citizens of Ukraine slightly slowed down the outflows from open-ended CII; they even increased their presence and their investments in these funds. Finally, at the end of Q2 2014 the share of domestic investors in assets of CII exceeded 84%, and in open-ended funds more than 60% belonged to the Ukrainian retail depositors. At that, if in venture funds companies are virtually the only investor (98%), than in open-ended they are citizens.

Total quarterly outflow from the open-ended CII weakened in April-June, and in annual terms – it was stabilized. However, this sector expect, at least in the short term perspective, reducing of the number of funds and, consequently, some further outflow of capital.

CII rates of return per quarter increased on average, due, first of all, to the appreciation of securities in conditions of a surge in the stock market as well as to a significant share of the assets of most funds in fixed income assets, including deposits in banks. The sector of open-ended CII was the exception in the ascending dynamics of yield; there an average gain of certificates decreased slightly. However, almost about a third of these funds were able to compete successfully with deposits and became close by the indicators of rates of return to equity indexes, that were significantly exceeded by certain interval and closed-end CII during this period.

⁷ See: [Methodology of Ranking AMC and CII \(unit and corporate investment funds\). Based on Their Performance Results.](#)



In general, in Q2 2014 equity funds were the leaders by the average growth of the investments' value, which they provide to their investors, not only among CII by specialized classes of assets, but also among a wide spectrum of investments, including bank deposits.

Additional information on CII on the UAIB website:

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

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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>