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**1. The stock market**

The final three months of 2013 in the developed world stock markets were steadily positive and reached a record for at least 5 years performance. At the same time, emerging markets had mixed results.

The key stock indexes of equities mostly rose on a background of actively enhancing macro-economic indicators of leading economies, reducing unemployment and expectations of continuing financial incentives for economic growth in the U.S. and so on. The uptrend was tested by short corrections. For example, American, Japanese and European markets dipped in early October due to uncertainty about the U.S. public debt and reducing in IMF forecast of global growth in 2013-14, respectively. Also, in mid-December, the U.S. Federal Reserve decision on gradual convolution of the cheap liquidity program (QE) led to the downward movement of the markets, and also caused an outflow of capital from emerging markets. Investors in these areas behaved less optimistic throughout the quarter. Thus, the Chinese market dipped in late October in tune with the developed countries, and fell again after recovery in December, when the liquidity crisis was exacerbated, besides American news, by the internal problems of high cost loans, despite the efforts of the Central Bank of China. Polish key stock index in Q4 showed moderate growth, and by all 2013 had negative results, along with Chinese, Russian and Ukrainian indicators.

Based on the results of the Q4 the main indexes of global markets recorded a significantly different values from -3.5% in China and +0.4% in Poland to +11.1% in Germany and +12.7% in Japan.

Japanese equities have been successful throughout 2013, especially in the Q1-Q2, making them the undisputed leaders at an annual rate of return - they brought +56.7%. Chinese papers that dipped by 6.1% were outsiders. Eastern European indexes lost 5.5-7.1% - on par with Ukrainian one (Table 1, Chart 1).

Table1.

National Markets' Stock Indexes' Dynamics in Q4 2013\*

Indexes	31.12.2012*	30.09.2013	31.12.2013	Q4 2013 change	2013 change
NIKKEI 225 (Japan)	10 395.18	14 455.80	16 291.31	12.70%	56.72%
DAX (Germany)	7 612.39	8 594.40	9 552.16	11.14%	25.48%
S&P 500 (USA)	1 402.43	1 681.55	1 841.07	9.49%	31.28%
DJIA (USA)	12 938.11	15 129.67	16 504.29	9.09%	27.56%
UX (Ukraine)	950.56	847.90	910.04	7.33%	-4.26%
FTSE 100 (Great Britain)	5 925.37	6 462.22	6 731.27	4.16%	13.60%
CAC 40 (France)	3 620.25	4 143.44	4 275.71	3.19%	18.11%
MICEX (Russia)	1 474.72	1 462.82	1 504.08	2.82%	1.99%
HANG SENG (Hong Kong)	22 666.59	22 859.86	23 244.87	1.68%	2.55%
RTS (Russia)	1 526.98	1 422.49	1 442.73	1.42%	-5.52%
PFTS (Ukraine)	328.69	298.55	300.53	0.66%	-8.57%
WSE WIG 20 (Poland)	2 582.98	2 391.53	2 400.98	0.40%	-7.05%
SHANGHAI SE COMPOSITE (China)	2 233.25	2 174.67	2 097.53	-3.55%	-6.08%

\* Based on the data of exchanges and Bloomberg Agency

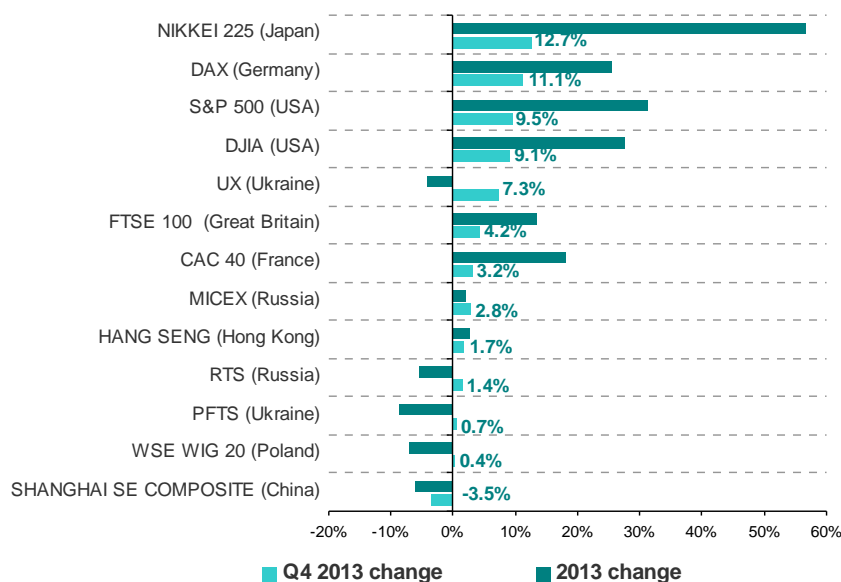


Chart 1. National Markets' Stock Indexes' Dynamics in Q4 2013

Ukrainian equity indexes over the last three months of 2013 reflected almost exclusively the positive expectations of the Association Agreement between Ukraine and EU and the signals from the leading exchanges of the world and, despite the subsequent political turmoil, showed a slight correction. In general, the upward dynamics dominated during the quarter: UX index rose by 7.3 %, the PFTS index rose symbolically - by 0.7%. Thus, from the beginning of 2013 domestic "blue chips" lost 4.3% in value (UX) and 8.6 % (PFTS).

At this time, based on SSMNC data, trade volumes on Ukrainian stock exchanges fell by 22.3 % (-UAH 35.5 bln.) (after +UAH 52.91 bln., or +49.8 % in Q3 ) and amounted to UAH 123.69 bln. (including derivatives market; and without derivatives – UAH 118.46 bln.). During 2013 the 98.7 % of the activity of trading by value of transactions were concentrated on 5 exchanges, and in Q4 72.8 % of the total trading volume was obtained on SE "Perspektyva", where the aggregate value of transactions decreased by 3.4 %. However, PFTS and UX trading volumes declined more than doubled in the quarter.

Preferential concentration of investors on government debt securities increased at the end of 2013: 76.0 % (in Q3 - 71.6 % ). The aggregate value of transactions with them in all markets, however, decreased by 17.5 % to UAH 94.04 bln. Corporate bonds slightly declined in popularity – agreements concluded with them were reduced by 6.1% (total – UAH 13.28 bln.). But in equities, even faced UX indexes rising, investors' interest sharply diminished: the amount of trades of these securities decreased by 56.5 % (-UAH 12.91 bln.) to UAH 9.94 bln, i.e. 8 % of the total trading volume on the stock exchanges in Q4 (14.4 % in Q3, 9.5 % for the whole 2013).

Thus, the "dumping" of bonds in Q4 continued, however, over 3/4 of the volume of trading on the stock markets of Ukraine was made with government bonds, although their popularity among investors also decreased compared to the previous quarter. However, stocks and corporate bonds, government bonds covered still almost 95% of trading on the stock market (for the year - 94 %). Derivatives owned the rest - 4.2 % (for the year - 4.5 %). Investment certificates accounted for only 0.9% of the quarterly trading volume (1.3 % annualized).

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

Based on the results of Q4 2013, the number of asset management companies did not change: although there were the AMC which left the market, their number corresponded to that of new entrants. Thus, according to the UAIB data, as of 31.12.2013 there were 347 AMC operating in Ukraine, that is 6 companies fewer compared to the beginning of the year (Chart 2).

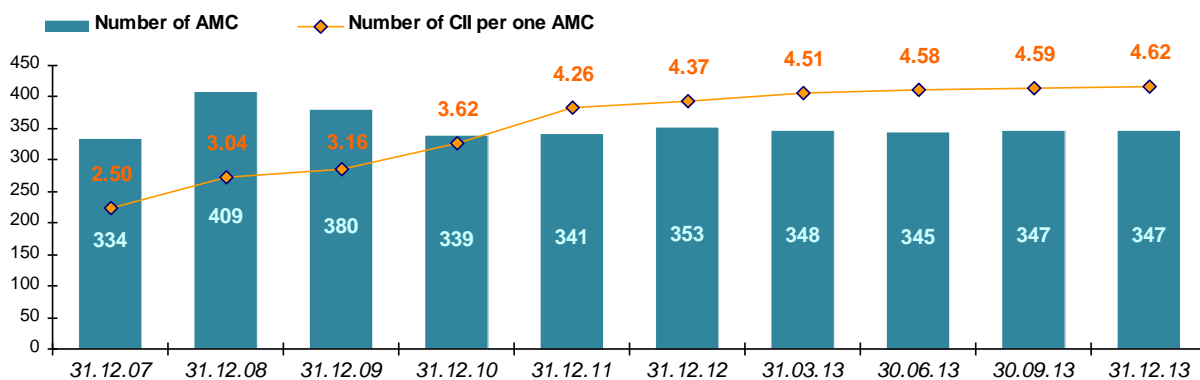


Chart 2. Dynamics of the Number of AMC and CII per One AMC in Q4 2008-2013 and During 2013

The number of registered CII continued to grow – up to 1604 funds (+11 for Q4, +60 YTD). Compared to Q3, the growth slowed (+13 funds), but it was higher than in Q2 (+10). Concentration in the CII market also increased only symbolically: as of 31.12.2013 one AMC managed 4.62 funds on average (after 4.59 on 30.9.2013, 4.37 at the beginning of the year).

The number of CII that had reached compliance with the standard to minimal asset volume in Q4, as in the previous quarter, increased (+11 funds) and on 31.12.2013 amounted to 1250. This was again due to the appearance of new active venture CII (+30); the corporate funds formed the majority (+19) in Q4 (Table 2). Among unit funds only the number of ventures also increased (+11). Retrenchments affected mostly the sector of closed - end non - diversified CIF (-8) and UIF (-12.2%, -6 funds). The number of interval and open-ended CII also decreased (-4 and -1 fund, respectively).

Table 2.

Dynamics of the Number of CII that Reached Compliance with the Standards, by Types, Kinds, and Legal Forms of Funds in Q4 2013

	Total	UIF					CIF		
		O*	I*	CD*	CNN*	CV*	I*	CNN*	CV*
31.12.2012	1222	41	38	13	45	829	2	110	144
31.03.2013	1213	42	38	11	48	826	1	108	139
30.06.2013	1204	42	37	11	47	828	2	100	137
30.09.2013	1239	42	36	11	49	850	2	98	151
31.12.2013	1250	38	35	11	43	861	2	90	170
Q4 2013 change	11	-4	-1	0	-6	11	0	-8	19
	0.9%	-9.5%	-2.8%	0.0%	-12.2%	1.3%	0.0%	-8.2%	12.6%
Change since year beginning	28	-3	-3	-2	-2	32	0	-20	26
	2.3%	-7.3%	-7.9%	-15.4%	-4.4%	3.9%	0.0%	-18.2%	18.1%

\* UIF – unit investment funds, CIF – corporate, O – open-ended, I – interval, CD – closed-end diversified, CNN – closed-end non-diversified non-venture, CV – closed-end venture

The share of venture CII in the total number of " recognized " CII increased to 82.5% (1031 fund), including UIF - up to 68.9% (861 fund).

As of 31.12.2013, as per UAIB data, in the process of liquidation there were 5 open-ended CII, 4 interval, 1 closed-end non-diversified UIF and 18 such CIF, 18 venture UIF and 4 CIF.

Since the beginning of 2013, the number of funds that have reached compliance with the standard to asset volume increased by 28, at that the quantity of venture funds increased by 58 (including UIF – by 32), and the number of closed – end non - diversified CIF decreased by 20.

The number of funds below the minimum volume standart among all registered CII under AMC management in Q4 continued to decline - from 96 in Q3 and 97 at the beginning of 2013 to 84 at the end of 2013. Thus, as of 31.12.2013 the share of assets of all CII under management fell from 7.4% to 6.3%, and therefore the prospects for growth in CII assets market due to new entrants decreased.



According to UAIB data, the number of CII with asset value below the normative declined significantly - from 95 to 78 in Q4, including 11 – due to venture capital funds. Among all CII with the assets below the norm there were 15 open – ended (48% of funds), 11 - interval (39%), 19 - closed –end (17%), 33 - venture ones ( 4%). As of 31.12.2013 the share of assets of all "recognized" CII was 6.2 % (at the beginning of 2013 there were 115 of them, or 9.4 %).

The number of diversified publicly placed CII in Q4 declined by 4 funds (after -9 in the previous quarter) and there were 62 funds on 31.12.2013.

According to the asset-structure based classification<sup>1</sup> the number of equity funds increased by 2 (8), mixed funds – by 29 (34), "other funds", i.e. those that did not meet the criteria for classes of equity funds, bond funds and mixed funds decreased by 40 (15). Thus, funds belonging to the class of bond funds reappeared – as of 31.12.2013 there were 5 CII. In the actual structure of investments there was no money market funds, the same as in Q3 2013 (Chart 3).

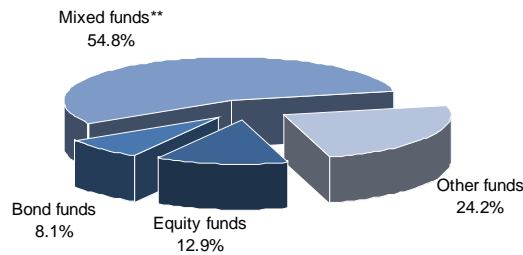


Chart 3. Diversified Publicly Placed CII, by Fund Classes, of as of 31.12.2013

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

The number of AMC on the Ukrainian map in Q4 remained unchanged. 2 AMC ceased operations in Kyiv, but 2 new ones were also created; situation in other regions did not change in the last three months of 2013. 245 AMC worked in Kyiv and its region. Among other major regions in terms of asset management business there were Dnipropetrovsk (22), Kharkiv (20), Donetsk (14) and Odessa (11) (Chart 4).



Chart 4. Regional Distribution of AMC Number as of 31.12.2013

<sup>1</sup> See Rankings "Diversified public CII – by asset classes" on UAIB website: <http://www.uaib.com.ua>.



The share of Kyiv and its region at the end of 2013 remained at 70.6%, that means an increase of the capital's share by the number of AMC since the beginning of the year by 0.6 p. p. (70.0 % as of 31.12.2012 ), with a decrease in the number of companies per year from 247 to 245.

For a constant number of AMC, the number of CII under management increased in Q4, and most actively - in Kyiv region, leading to an increase of its share in the regional distribution of CII by the number of funds from 71.2 % to 71.3 % (at the beginning of 2013 - 70.2 %). Also the share of Dnipropetrovsk is increased – from 7.8% to about 7.9 %, and Kharkiv's share increased symbolically.

In CII assets under management' regional distribution the shares of Kyiv and Kharkiv increased slightly, but the share of Donetsk region increased significantly - from 3.7% to 4.8 % (however, in Q2 it was 5.4 %) (Chart 5).

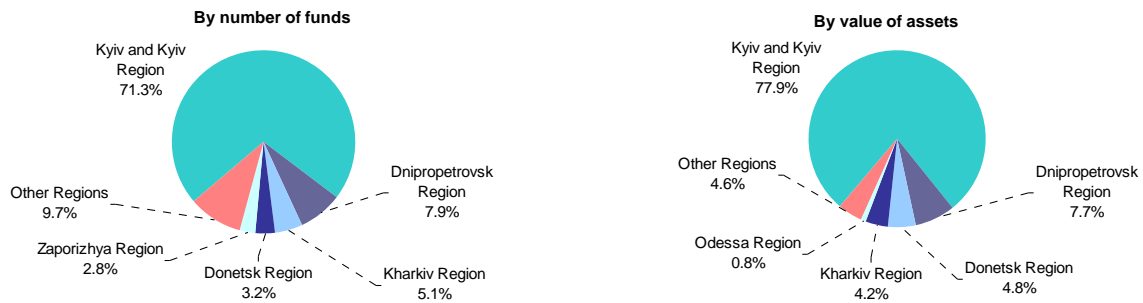


Chart 5. Regional Distribution of CII by the Number of CII and Value of Their Assets Under Management, as of 31.12.2013

#### 4. The Asset and the Net Asset Value of CII

In Q4 2013, as well as throughout 2013, there was an increase of CII assets market, but almost exclusively due to the sector of venture funds. For the last three months of the year the aggregate assets of the closed – end non venture CII also increased (Chart 6) - even while reducing the number of funds for which accountability calculations were done based on their reports (- 14 compared to Q3).

In other sectors – open-ended and interval CII – the aggregate asset value decreased again. As in Q3, one of the factors influencing the reducing of the value of open-ended and interval funds was diminution of the number of CII in these sectors – by 4 funds in each. However, in the reduction of assets, particularly open-ended CII, the main role belonged to the outflows of capital. The dynamics of the stock market at that time was mostly the supportive factor, as the market grew quite actively.

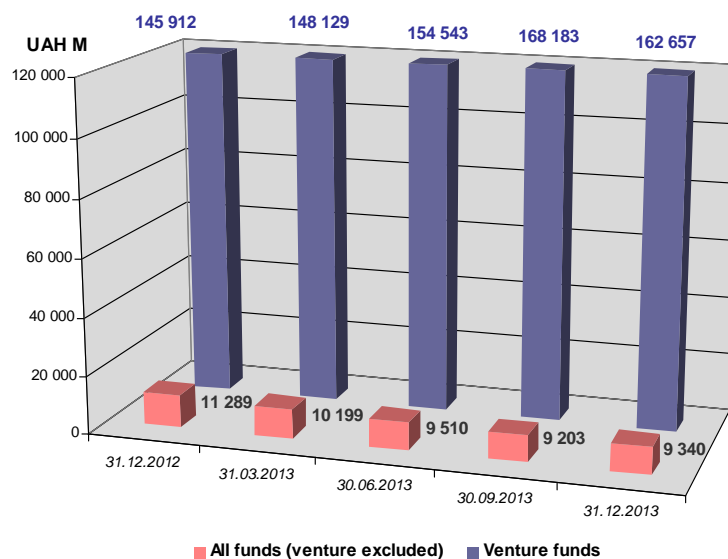


Chart 6. Dynamics of the Asset Value of CII in Q4 2012-2013



As of 31.12.2013, the total assets of CII amounted to UAH 177 522.99 mln. Quarterly growth was UAH 5 662.93 mln. (+3.3 %, after 4.76 % in Q3 ). Herewith the assets of venture CII generally increased by UAH 5 526.00 mln. (+3.4 %, after 5.25 % in Q3 ) up to UAH 168 183.38 mln. Since early 2013, the assets of the CII industry grew by UAH 20 321.86 mln. ( +12.93 %) due to increasing of the sector of venture capital funds by UAH 22 271.08 mln. (+15.26 %).

The net assets of CII the second consecutive quarter in the line increased due to both the venture sector and other closed-end funds. However, the increase in NAV of closed – end non-venture CII in Q4 did not compensate them their losses in previous quarters, so from the beginning of the 2013 their net assets decreased to UAH 8 318.15 mln (-UAH 1 127.47 mln.,-11.94 %) (Table 3).

The net assets of the venture sector in Q4 increased by UAH 4 646.91 mln., or 3.2 %, almost half that in the Q3, but was more than 97 % of the whole CII industry increase in net assets. Aggregate NAV of venture capital funds reached UAH 149 880. 84 mln. On the whole the venture capital funds received UAH 382.42 mln. for the 2013 (+15.74%), and in this way ensured the increase for all CII by UAH 19 163.89 mln. (13.76 %) and the total NAV was UAH 158424.47 mln. as of 31.12.2013.

Interval CII, while reducing the number of submitted reports by 12.5 % (4 funds), shew NAV decrease by 13.9 % ( -UAH 19.72 mln. ). Thus, the decline accelerated by 10 times compared to the 3rd quarter. Finally, at the end of 2013 the total NAV of the sector amounted to UAH 122.28 mln. The annual reduction in net assets of interval funds amounted to 33.72 mln. ( -21.62 %).

Open-ended CII, that became fewew 11.4 % l(-4 funds) lost 13.4 % of their NAV ( -UAH 15.94 mln.). That significantly slowed the reduction after Q3, but the results of whole 2013 shew their the most rapid narrowing compared with other sectors. Thus, the net assets of these CII declined by -35.72 % ( -UAH 57.34 mln.). That occurred as a result of withdrawal from the market of several participants and the outflow of capital from those remaining. On 31.12.2013 the net assets of open-end funds were fixed at UAH 103.20 mln.

Table 3.

Dynamics of the NAV of CII by the Types of Funds in Q4 2012-2013, UAH mln.

Fonds	31.12.2012	31.03.2013	30.06.2013	30.06.2013	31.12.2013	Q4 2013 change	2013 change
Open-ended	160.54	158.58	147.02	119.15	103.20	-13.38%	-35.72%
Interval	156.00	143.05	143.98	141.99	122.28	-13.89%	-21.62%
Closed-end (venture excluded)	9 445.63	8 800.37	8 141.54	8 165.58	8 318.15	1.87%	-11.94%
All Funds (Venture excluded)	9 762.16	9 102.00	8 432.54	8 426.72	8 543.63	1.39%	-12.48%
Venture	129 498.42	128 833.42	137 155.82	145 233.93	149 880.84	3.20%	15.74%
All Funds (Venture included)	139 260.58	137 935.42	145 588.36	153 660.65	158 424.47	3.10%	13.76%

Growth of the net assets in the sector of closed-end CII and reduce in interval and open – ended ones in Q4 supported the tendency to further reducing the share of the smallest two sectors in the total CII assets, in particular in venture one. Thus, at the end of 2013 the share of closed-end funds increased from 96.9 % to 97.4 %, and the shares of interval and open – ended ones - fell from 1.7 % to 1.4%, and from 1.4 % to 1.2 % respectively (Chart 7).

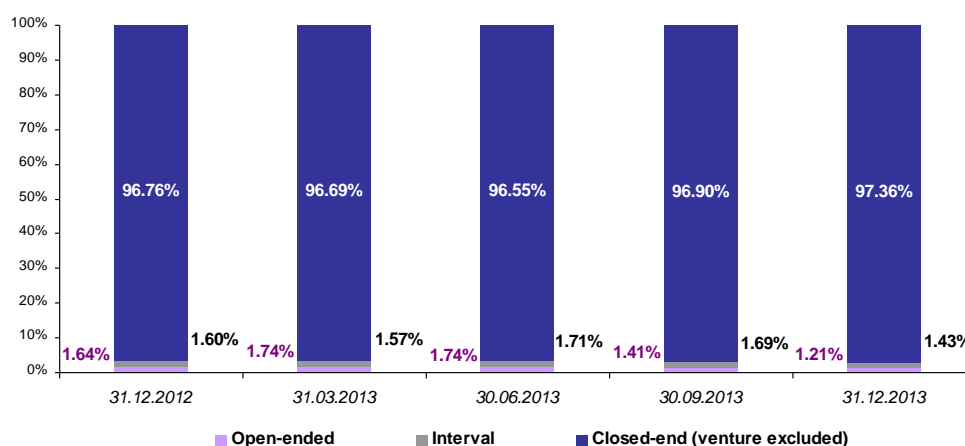


Chart 7. Dynamics of Non-Venture CII NAV Breakdown by the Types of Funds in Q4 2012-2013



Venture capital funds relative to the total CII market showed the same dynamics and proportion, as the closed-end funds relative to all non-venture CII. Thus, in Q4 the share of venture capital funds in the aggregate NAV continued to increase - from 94.5 % to 94.6 % (Chart 8). Since the beginning of 2013 it grew 1.6 p.p.

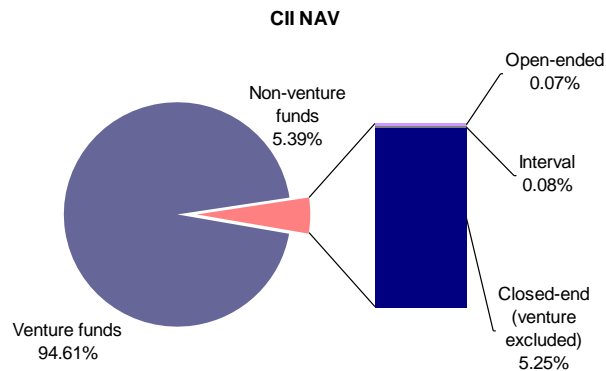


Chart 8. Distribution of CII NAV by the Types of Fund as of 31.12.2013

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

The outflow of capital from the open-ended CII in Q\$ 2013 slowed down twice and thus returned to the level of the Q2. At that, 2/3 of the quarterly outflow of the sector took place in October, and in the last month of the year the open-ended CII paid only UAH 1.5 mln. to investors (Chart 9, Table 4).

As in previous quarters, the cumulative figure for the sector was greatly influenced by the dynamics of two or three funds - from 96 % in October to 23-44 % in December. The largest net outflow was observed in the fund with a conservative investment strategy.

The number of open-ended CII, that had a net inflow of capital in the last three months of the year practically remained unchanged (2-4). The total net inflow of such funds continued to decline - for the quarter they attracted additionally UAH 0.13 mln. (after 0.2 mln. in Q3).

With a total number of open-ended CII, which continued their activities in Q4, that was 31-33 fund, the amount of CII, which had a net outflow decreased slightly - 10-17 after 13-18 in Q3.

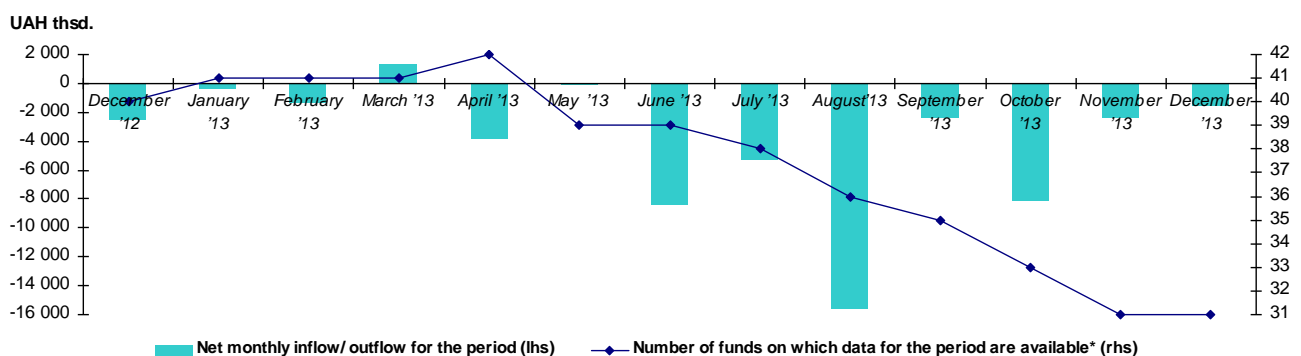


Chart 9. Monthly net inflow / outflow of capital in Open-Ended CII in December 2012-2013\*

\* Based on daily data



Table 4.

Monthly net inflow / outflow of capital in Open-Ended CII in December 2012-2013 .\*

Month	Net monthly inflow/ outflow for the period	Number of funds on which data for the period are available
December '12	-2 532	40
January '13	-363	41
February '13	-1 392	41
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

\* Based on daily data

The cumulative net outflow from open-ended CII in Q4 2013 amounted to over UAH 12.1 mln. So, this time the narrowing of the sector continued, but its scope was much reduced, although it was greater than a year ago by 23 % (Chart 10).

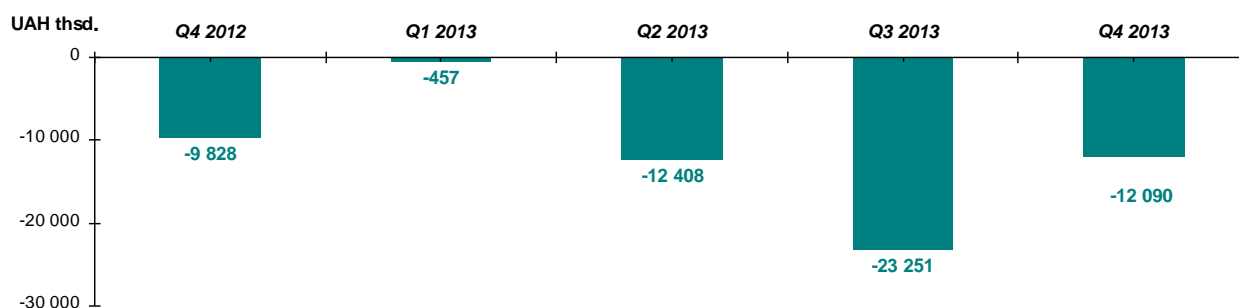


Chart 10. Net Inflow /Outflow of Capital in Open - Ended CII in Q4 2012-2013

The sharp decline in the rates of outflow is explained by the preparation for the closure of some funds in the previous quarter, which consisted of returning money to their investors and, consequently, resulted with significant net outflow from these CII. In Q4 this process ended – the respective funds were closed, and there was an outflow from the CII, that continued to operate in the market.

Since the beginning of 2013 UAH 48.2 mln was extracted from the open-ended CII, so the annual net outflow increased slightly in Q4 (+5 %).

Net outflow of capital has retained its significant impact on the dynamics of the net assets of open-ended CII sector - its share in reducing the amount of NAV in Q4 was 76 % (after 83% in Q3 ), and the share of net outflows from open-ended funds in the annual NAV's decrease in 2013 was 84 % (in the previous quarter - 76 %).

Significant outflow of capital and quantity reduction of funds in the Ukrainian market of open-ended CII in Q4 and throughout 2013 contrasted with large-scale influx of **European public open-ended funds (UCITS)**, which this year increased their attractiveness to investors. Thus, during October - December 2013 European UCITS funds attracted additional EUR 51 bln. (EUR 34 bln. in Q3), and for the whole 2013 – EUR 229 bln (after EUR 196 bln in 2012)<sup>2</sup>.

It was promoted both by improving of macro-economic picture in the region, as well as clear and predictable steps of EU financial markets' regulators. They allowed investors to choose among different asset classes, periodically transferring money from aggressive funds to moderate and conservative ones, or

<sup>2</sup> . [EFAMA European Quarterly Statistical Report Q4 2013 and 2013](#)





vice versa, and not to withdraw investments from industry as a whole, but rather to invest additionally in funds.

*Equity funds* attracted the most of the additional investment in Q4 (EUR 40 bln.), the same as in the previous year, and got EUR 99 bln in net capital inflows for the whole 2013. And *balanced funds* were the leaders by annual rate - they attracted from investors additional EUR 114 bln., and 30 of them – in Q4.

*Bond funds* partially compensated the losses of Q3, receiving a net inflow in October - November EUR 3 bln., while since the beginning of 2013 they had EUR 70 bln. of net inflow.

*Money market funds* were the outsiders among funds by classes of assets in EU in Q4, the outflow from which contributed to the extending of assets by other types of UCITS. These funds lost in the quarter another EUR 21 bln., and fixed at last the annual outflow at EUR 84 bln. (after –EUR 37 bln in 2012).

## 6. The Investors of CII

At the end of 2013 Ukrainian institutional investors retained the primacy by the volumes of investment into CII, and at that in Q4 their share increased. Thus, legal entities-residents as of 31.12.2013 had 77.43 % in aggregate NAV (after 76.8 % in Q3, 80.0% at the beginning of the year) (Table 5, Chart 11). The total investments of these investors increased during Q4 by HRN 4 606.92 mln. (after 2 355.34 mln. in Q3), which was mainly due to the investments in venture capital funds (99.5 % increase in investments).

Table 5.

CII NAV Breakdown by the Categories of Investors as of 31.12.2013, share of NAV

Funds	Legal entities		Natural persons	
	residents	non-residents	non-residents	non-residents
Open-ended	47.61%	4.83%	47.50%	0.06%
Interval	50.88%	0.64%	48.46%	0.03%
Closed-end non-venture	63.07%	5.23%	31.46%	0.24%
<b>All funds (non-venture)</b>	<b>62.71%</b>	<b>5.16%</b>	<b>31.89%</b>	<b>0.24%</b>
Venture funds	78.28%	18.09%	3.57%	0.06%
<b>All funds (venture included)</b>	<b>77.43%</b>	<b>17.38%</b>	<b>5.11%</b>	<b>0.07%</b>

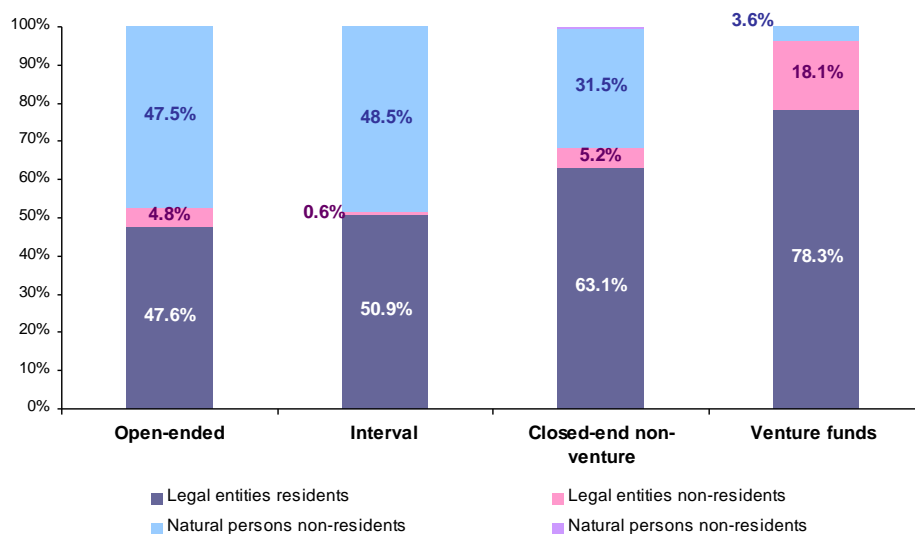


Chart 11. CII NAV Breakdown by the Categories of Investors as of 31.12.2013, share of NAV

The growth of investment in CII by natural persons - residents accelerated more than double - UAH 1 399.79 mln. (after + UAH 687.42 mln. in Q3), in particular in venture capital funds. Finally, the share of citizens of Ukraine by volume of investment in CII increased from 4.4 % to 5.1 %.



The withdrawal of investments by foreign investors also contributed to increasing the share of domestic investors: at the end of Q4 non-residents hold in CII UAH 1 369.13 mln. less than in the previous quarter, in particular *institutional investors* - 1 361.95 mln. less (in Q3 there was the growth UAH 3 337.70 mln.). Over 90% of this reduction concerned the venture capital funds, although in all other sectors of CII total investments of foreign companies and citizens also decreased. Overall, at the end of 2013, non-residents held approximately 17.5 % of the NAV of all CII (after 18.9 % in Q3 and 16.1 % at the beginning of 2013).

**In non-venture funds** in Q4 dynamics of investments of various categories of investors changed: investments of domestic companies began to grow again (+UAH 22.69 mln. after - UAH 49.53 mln. in Q3), and foreign investments were reduced both by legal entities and individuals (- UAH 132.85 mln., and - UAH 1.41 mln., respectively). Decrease in foreign investors' investments concerned primarily the closed-end funds - they held 98% of this reduction.

The amount of money that belongs to the *Ukrainian retail investors* substantially increased (+ UAH 228.64 mln. - also due to the closed - end CII ( + UAH 235.65 mln.). Finally, the share of Ukrainian citizens in venture funds rose in the quarter from 29.6 % to 31.9% (at the beginning of the year it was 23.8 %), and the shares of other categories of investors narrowed, mostly those of legal entities non-residents - from 6.8 % to 5.2% (at the beginning of the year - 6.9 %).

In Q4 2013 investors continued to pull their money **from the open-ended CII**, that was partly due to the closing of several funds. Most of all it concerned the legal entities-residents, which total investments decreased by UAH 9.12 mln. (after UAH 4.53 mln. reduction in Q3) and natural persons - residents - by UAH 5.05 mln. (-UAH 21.17 mln in Q3). The total value of investments in open-ended CII owned by foreign legal entities in Q4 fell - by UAH 1.77 million. (-1.91 mln. in Q3).

As a result of such movement of capital, the share of investors - citizens of Ukraine - in the aggregate NAV of open - ended funds in 2013 increased from 45.4 % to 47.5% (at the beginning of the year it was 46.4 %), despite the outflows from them. The share of domestic companies declined in the quarter the most - from 48.9 % to 47.6 % (at the beginning of 2013 it amounted to 42.5 %). Also, not only in absolute but also in relative terms, the investments of legal entities - non-residents became less and their share in the sector narrowed from 5.7 % to 4.8% (at the beginning of the year - it was 11.0 %).

**In the interval CII** companies - residents also reduced the most the rate of their investments - by UAH 17.37 mln (in Q3 - by 0.40 mln). *Natural persons-residents* reduced their presence by UAH 1.97 mln (in Q3 by UAH 1.57 mln). At that the share of institutional domestic investors decreased from 50.9% to 50.0% (at the beginning of the year they had 54.5 %) and of retail investors - increased from 43.1 % to 48.7 % (at the beginning of 2013 it was - 44.6 %).

*Other categories of investors* reduced the total investments in the interval funds just symbolically, that is likely due to the closure of some of them. The share of *non-residents* in Q4 fell to 0.7 % ( in Q3 - 0.8 %, at the beginning of the year - 0.9%).

NAV dynamics by the categories of investors **in closed-end CII**, which had more than 97 % of the net assets of non-venture funds, defined the picture for all CII, except venture ones. So, in this sector over the past three months of 2013 the amount of money owned by non-residents was considerably reduced (- UAH 132.10 mln.), instead investments of residents significantly grew (+UAH 285.10mln.).

*Investments of foreign legal entities* decreased most of all (-UAH 130.78 mln. after -UAH 134.64 mln in Q3), and those of *citizens of Ukraine* increased (+UAH 235.65 mln. after UAH 164.83 mln.). Finally, the share of first dropped from 6.9% in Q3 and at the beginning of the year to 5.2% at the year-end; the share of natural persons - residents grew from 29.2% to 31.5% (at the beginning of the year - 23.1%).

The share of the biggest investors in the interval funds - *legal entities - residents* - having a slight increase in the amount of investments has declined from 63.4% to 63.1% (at the beginning of 2013 - 69.9%).

Growth of assets that lasted in the sector of **venture CII** in Q4 2013 was mainly due to the growth of companies - residents' investments by UAH 4 583.96 mln. (after UAH 2 404.86 + UAH 3 474.27 mln. in Q3), as well as of citizens' of Ukraine - by UAH 1 171.15 mln. (after +545.33 mln. in Q3). *Non-residents*, in particular *legal entities*, took away their investments from venture capital funds - reduction for the quarter amounted to UAH 1 229.10 mln., that was a sharp reversal compared to Q3, when their total investments increased by UAH 3 474.27 mln.



This movement of capital has led to a decline in the share of *foreign institutional investors* in venture funds from 19.5 % to 18.1 % (16.8 % at the beginning of the year) and broadening the share of domestic investors: legal entities - from 77.6 % to 78.3% (at the beginning of the year it was 80.8 %), natural-persons - from 2.9 % to 3.6% (at the beginning of the year - 2.4 %).

So, the presence of Ukrainian citizens in CII continued to expand in Q4 - as by the absolute size of the total investment, and in relation to other categories of investors. Growth of companies – residents’ investments, almost doubled compared to Q3, also contributed to their shares’ increase in NAV, as well as the reduction of investments by non-residents.

### 7. The Asset Structure of CII

Dynamics of CII structure by types of instruments in Q4 2013 showed a further reduction in assets in the securities of most sectors of CII. Thus, their share fell from 74.5 % to 72.1 % in the interval funds (at beginning of 2013 - 74.8% ), with 51.3 % to 47.2 % (at the beginning of 2013 - 58.2 %) in the closed-end ones, and from 31.2 % to 28.7% (at the beginning 2013 - 31.2 %) in venture capital funds. In open-end funds the share of financial instruments increased for the first time since the beginning of 2012 - from 47.7 % to 48.1 % ( at the beginning of 2013 - 55.7 %) (Chart 12).

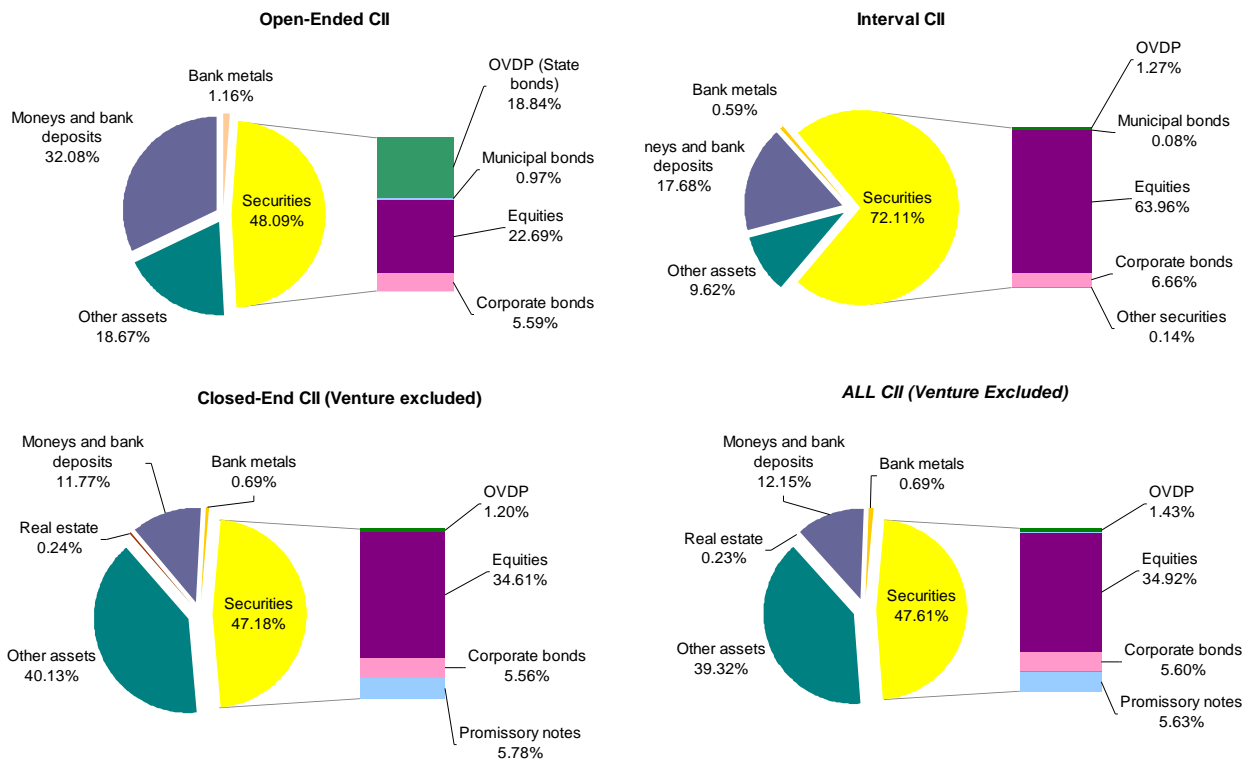


Chart 12. CII Asset Structure, Venture Funds Excluded, By The Types of Funds as of 31.12.2013

Regarding the total investments in securities in absolute terms, they decreased significantly in the last quarter of 2013 – by UAH 2 761.92 mln. in general, however, almost 90% of this reduction was due to the sector of venture CII.

**Corporate bonds** had the lion’s part in fall of investments – the total CIIs investments in them narrowed by UAH 1 404.59 mln., although their share in the aggregate portfolio of closed – end non-venture funds increased by UAH 50.20 mln. Also the volume of investments that were held by funds *in equities* fell significantly - by UAH 921.13 mln., including UAH 560.81 mln. in venture funds and UAH 343.56 mln. in other closed-end CII. The assets of investment funds *in promissory notes* also decreased - by UAH 727.40 mln., at that in venture CII - by UAH 753.64 mln. Other closed-end CII partially



compensated this outflow of investments - investments in their promissory notes increased by UAH 27.09 mln.

By contrast, funds' investments in **savings certificates** increased nearly three-fold - by UAH 237.58 mln. to UAH 363.11 mln. It was almost exclusively due to venture CII.

**Moneys on bank accounts** in Q4 grew only in the sector of closed-end non - venture funds (UAH 163.48 mln.), and in the sector of open-ended funds their decline was the most significant for the sector – by UAH 10.20 mln. while reducing the total investments in securities by 7.18 mln.

**"Other" assets**<sup>3</sup> in CII increased by UAH 8 309.30 mln., 96% of which - through the activities of venture capital funds. The share of these assets has significantly increased in all sectors of CII, although in the interval ones their total value has dropped slightly.

*Open-ended funds* as of 31.12.2013 held the most assets in moneys - more than 32 % of the portfolio, and equities constituted for almost 23%, in which interval CII held nearly 64 %; they occupied almost 35% in closed-end non- venture CII, and "other " assets - more than 40%.

The key changes in the structure of the aggregated CII portfolios by the types of funds in Q4:

#### **Open-end funds**

*Growth* of the share of investments in such instruments:

- "other" assets - from 14.9 % to 18.7 %;
- equities - from 20.5 % to 22.7 %;
- municipal bonds - from 0.8% to 1.0 %;

*Decrease:*

- money and bank deposits - from 36.3 % to 32.1 %;
- corporate bonds - from 6.3% to 6.0 %;
- OVDP - from 20.0 % to 18.8 %;

#### **Interval funds**

*Growth:*

- moneys and bank deposits - from 16.3 % to 17.7 %;
- "other" assets - from 8.7 % to 9.6 %;
- OVDP - from 0.5 % to 1.3 %;

*Decrease:*

- equities - from 65.9 % to 64.0 %;
- corporate bonds - from 7.3 % to 6.7 %;

#### **Closed-end funds (except venture )**

*Growth:*

- "other assets" - from 37.5 % to 40.1 %;
- moneys and bank deposits - from 10.2 % to 11.8 %;
- promissory notes - from 5.6 % to 5.8 %;
- corporate bonds - from 5.1% to 5.6 %;

*Decrease:*

- equities - from 39.3 % to 34.6 %.

Changes in the volume and structure of investments of **venture CII** in Q4 2013 were opposite to those that occurred in the previous three months, particularly in terms of *securities and moneys*. Thus, the total value of the first reduced by UAH 2 473.92 mln., and of the second ones - by UAH 95.26 mln. So, the share of financial instruments narrowed for the quarter from 31.2% to 28.7% (at the beginning of 2013 - 31.2 %).

Assets were reduced in *equities, corporate bonds, promissory notes (see above ) and also in mortgages* (-UAH 19.13 mln., after -UAH 19.42 mln. in Q3). At the same time, venture CII increased

<sup>3</sup> "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).



investments in *savings certificates* (+UAH 237.26 mln. after –UAH 570.83 mln. in Q3) and relatively slightly - in *OVDP, other securities, and also in real estate*.

Traditionally, during the quarter most of the venture CII assets were invested in "other " assets (+UAH 7 985.63 mln., after UAH 5 316.60 mln. in Q3). This, in the conditions of sharp reduction in the assets of venture funds in securities, led to a noticeable increase of the "other " assets' share in the aggregate portfolio of the sector - by 2.67 p. p to 66.6% (Chart 13).

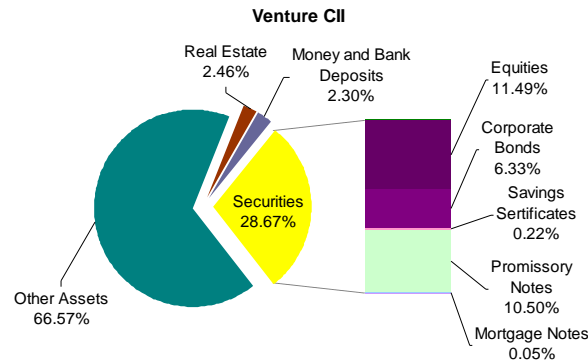


Chart 13. Venture CII Assets Structure as of 31.12.2013

Major changes in the structure of the consolidated portfolio of **venture CII** in Q4 were:

*Growth:*

- "other assets" - from 63.9 % to 66.6 %;
- savings certificates - from 0.1 % to 0.2 %;

*Decrease:*

- equities - from 12.2 % to 11.5 %;
- corporate bonds - from 7.4% to 6.3 %;
- promissory notes - from 11.3 % to 10.5 %;
- moneys and bank deposits - from 2.44% to 2.3 %.

*Equities* remained to be the **largest class in the aggregate portfolio of all CII by the total value of securities** in Q4. Although their total value decreased in monetary terms – by UAH 921.13 mln. (after + 2 465.45 mln. in Q3) to UAH 22 595.48 mln., but against the backdrop of a sharp reduction in other investments the share of equities in CII portfolio of financial instruments increased from 42.4 % to 42.9 % (Table 6). Since the beginning of 2013 the total CII assets in equities increased by UAH 1 172.53 mln.

*Promissory notes*, the aggregate value of which decreased by UAH 727.40 mln. (after UAH 1 607.59 mln. in Q3) in the CII portfolio of securities retained the second position with amount of UAH 180.61 mln., expanding its share from 34.1 % to 34.5 %. Since the beginning of the year investments in promissory notes decreased by UAH 603.40 mln.

*Corporate bonds* also remained in the the top three with the total investments' size of UAH 11 165.82 mln., i.e. UAH 1 404.59 mln. less than in Q3. As a result, their share in the aggregate CII portfolio dropped from 22.7% to 21.2 %. Since the beginning of the year the assets in corporate debt securities became UAH 214.32 mln. more.

At the same time, funds' investing in *savings certificates* increased by UAH 237.58 mln. (after – UAH 569.58 mln. in Q3) to UAH 363.11 mln. In early 2013 there were not such securities in the portfolios of CII.

*Derivatives* also stepped up their value and share of the CII stock portfolio, though on a much smaller scale: in Q4 they increased by UAH 58.91 mln. (after +UAH 42.40 mln. in Q3) to 0.21% (before it was 0.09%). Since beginning of 2013, the assets in *derivatives* increased by UAH 105.53 mln.

Overall, **the portfolio of securities of all CII** at the end of 2013 decreased significantly – by UAH 2 761. 92 mln. (after + UAH 4 732.94 mln. in Q3) to UAH 52 662.63 mln., and since early 2013 it has increased significantly - through investments in equities - by UAH 1 046.76 mln.



Table 6.

Value Breakdown of CII aggregate securities portfolio, by the types of instruments, as of 31.12.2013

Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	22 595 479 400	42.91%
Promissory notes	18 180 609 233	34.52%
Corporate bonds	11 165 820 401	21.20%
Savings certificates	363 113 766	0.69%
Internal state loan bonds (OVDP)	148 613 827	0.28%
Derivatives	110 192 965	0.21%
Mortgage securities	88 328 417	0.168%
Treasury bonds	9 319 154	0.018%
Municipal bonds	1 156 728	0.002%
<b>Total</b>	<b>52 662 633 891</b>	<b>100.00%</b>

Consolidated portfolio *of open-ended, interval and closed – end (except venture ones )* CII in Q4 had a downward trend (-UAH 288.00 mln. after –UAH 589.83 mln. during the previous three months). Assets *in equity* were significantly reduced (-UAH 360.32 mln.), and besides, investments in OVDP were reduced only symbolically. In contrast, *corporate bonds* became UAH 46.12 mln. more (after –UAH 162.11 mln. in Q3), *promissory notes* increased by UAH 26.25 mln. (after –UAH 265.87 mln.).

Thus, the share of equities in the aggregate portfolio of non-venture funds dropped sharply - from 76.5 % to 73.4%, and such of the corporate bonds and promissory notes - increased from 10.1 % to 11.7 % and from 10.6 % to 11.9 %, respectively (Table 7).

Since the beginning of 2013 non - venture CII portfolio decreased by UAH 2 129.54 mln. to UAH 4 458.86 mln.

Table 7.

Value Breakdown of non-venture CII aggregate securities portfolio, by the types of instruments, as of 31.12.2013

Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	3 272 429 266	73.39%
Promissory notes	529 435 060	11.87%
Corporate bonds	523 015 734	11.73%
OVDP	131 247 055	2.94%
Savings certificates	1 573 858	0.04%
Municipal bonds	1 156 728	0.03%
<b>Total</b>	<b>4 458 857 701</b>	<b>100.00%</b>

## **8. The Rates of Return of CII**

Despite the political and economic turbulence in Ukraine in Q4 2013, "blue chips" of the domestic stock market showed mainly growth. This contributed, in general, to further increase of the CII rates of return, though such influence was limited to the share's size of funds' investments in the corresponding equities. Some papers, that are not part of the leading stock indexes, showed a significantly higher yield. This applies, in particular, to closed-end CII, that by the average index in the sector were twice ahead of the UX index. Reduction of the average rate of return of investments in Q4 was observed only in the interval CII, which were leaders in Q2 and Q3. However, even there the dynamics of investments remained generally positive and was on par with the growth of the PFTS index (Chart 14).

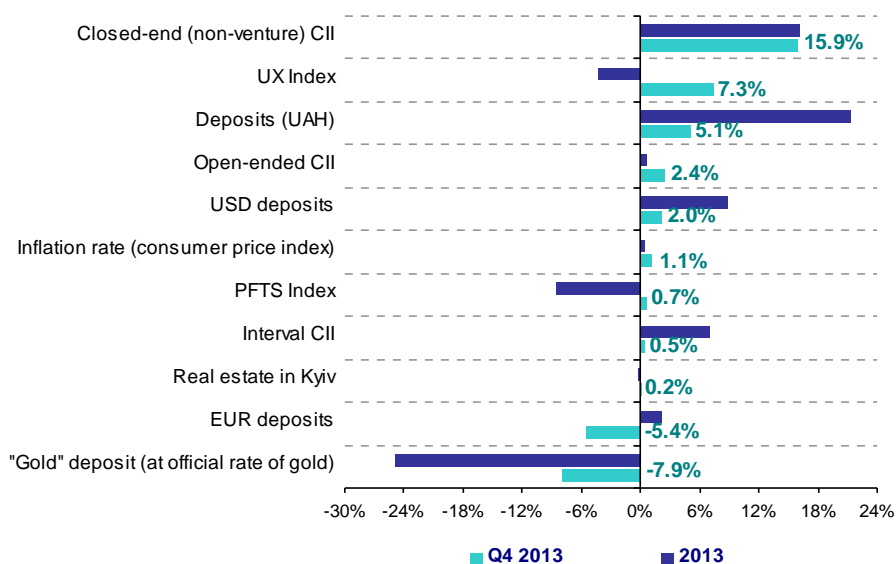


Chart 14. Average Rates of Return – CII, Deposits, Equity Indexes and Inflation Rate in Q4 2013 and Year to Date<sup>4</sup>

*Closed-end funds* had the highest rate of return among non-venture CII with an average of 15.9 % (after +0.3 % in Q3 ) in Q4 2013. They surpassed not only the UX index (+7.3 % ), but also the UAH deposits ( +5.1 %). However, excluding five highest values that showed an increase in value of funds' securities more than by 2.5 times, and four smallest ones with a drop in the value to half, the average rate of return in the sector of closed-end CII in October-December amounted to +2.48 %. Since the beginning of 2013 closed-end funds brought +16.2 %.

*Interval CII* in Q4 2013 showed 0.5% (after +1.6 % in Q3 ), close to profitability of residential real estate in Kiyv (+0.2%) and PFTS index (+0.7%). At the same time, if we discard the significantly different performance of two funds, the rate of return in the sector was negative (-1.6 %). Thanks to a successful Q1 and Q3, from the beginning of 2013 the sector has brought to investors an average of +7.0 %.

*Open-ended CII* in October-December, provided +2.45 % (after +0.2 % in Q3 , and excluding the two extreme values, - +1.4% . Thus, this sector had an average yield level of USD ( +2.0 %)<sup>5</sup>. For the rates of return from the beginning of 2013 *open-ended CII* in Q4 were generally among the least successful non-venture funds with a surplus of 0.6% of certificates.

The rate of return of separate funds within the sectors by the types of CII continued to vary considerably, which is natural in terms of funds' specialization in various classes of assets. And in all sectors the range of indicators of different funds considerably extended compared to Q3.

**Open – ended CII** had results from -10.0 % to +46.1 % (after -13.8 % to +9.3 % in Q3 ).The highest and the lowest values sharply distinguished from the total numbers: the first is more than 10 times higher than the nearest rival, and the second one was almost halved. In general, 22 *open-ended funds* from 31 increased the investments of depositors (after 19 from 34 in Q3), including one, which brought more than UAH deposits had, 16 – more than USD deposits. At the same time, the only one from open-ended CII had the worse rate compared to EUR deposits ( -5.4 %) and deposits in gold (-7.9 %).

**Interval CII** generated revenue ranged from -20.8 % to +75.8 % (in Q3 - from -8.4 % to +39.1 %). The upper index here is also dramatically different from the rest of the range – the fund - leader brought 15 times more revenue for the quarter than the next, following it. At that outsider's index was almost twice

<sup>4</sup> CII rates of return are calculated based on the reporting data for Q4 2013 (31 open-ended, 28 interval and 111 closed-end CII) and Q1- Q2 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)(to 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://realt.ua>.

<sup>5</sup> It is necessary to take into consideration the liquidity of CII, in particular, of open-ended type, which allow to exit from investments on any working day without losing returns, unlike in case of bank deposits, the prevailing majority of which envisage re-calculation of interest income in case of an early release of moneys based on the rate of return on current accounts (up to 3% per annum). In the meantime, the rates of return calculated do not take into account possible commissions, other costs incurred at entry to/ exit from funds, as well as investment profit taxation.



lower than the second lowest value. Overall, 13 of the 28 interval funds have provided investment growth in Q4 2013 (after 18 of 32 in Q3), and 2 of them - at or above the rates of return of UAH deposits, 9 – USD deposits. 7 interval CII brought worse results than EUR deposits, 5 - than "gold" deposits.

**Closed-end CII**, also despite reduction in number of funds in Q4, showed a dramatic increase in the range of returns. It is noteworthy that this was due to its "move up": some funds had from -49.2 % to +878.9 % for the quarter ( in Q3 - from -49.4 % to +54.9 %). 55 of 111 close-end funds have increased the value of their contributors' investments (after 44 of the 122 in Q3), and 19 CII- more than the rates of investments on UAH deposits and 36 - at or above the yield of USD deposits. 10 of closed-end CII had a lower rate of return than EUR deposits, 6 – less than "gold" deposits.

UAH deposits held the lead by the annual rate of return in 2013 (+21.4 %) and deposits in gold were the most unprofitable (-24.9 %), as metal wire began to fall in price since 2012, and in Q2 its value fell by almost 23%. UX and PFTS index lost in the year 4.3-8.6 %, and non-venture CII brought in an average of 0.6% (open-ended) to +16.2 % (closed-end).

Among the classes of **diversified publicly placed CII** (according to the structure of their assets in Q4 2013) bond funds (+3.3 %) and "other" funds (+5.9 %) were the most profitable ( Chart 15). At that, 5 open-ended CII with indicators of performance from 2.3 % to 3.7 % (in Q3 – no one) belonged to the first ones, and 15 open-ended and interval CII with yield for the quarter from - 7.7 % to +75.8 % (in Q3 - 55) belonged to the funds, that did not meet the criteria for special classes<sup>6</sup>. The average indicator here was +1.5 % (excluding the leader and the outsider).

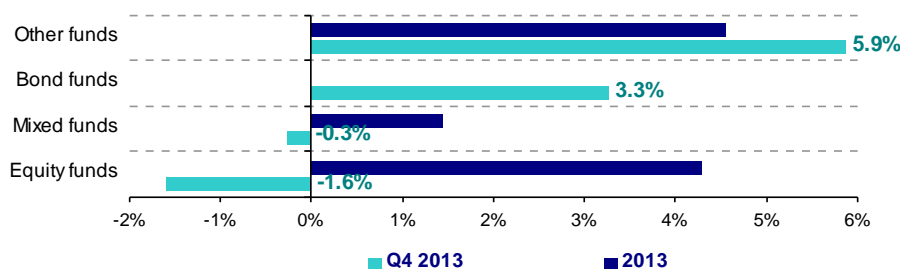


Chart 15. Average Rates of Return of Diversified Publicly Placed CII, by the Classes of Funds in Q4 2013 and Year-to-Date 2013

*Equity funds*, to which 8 open-ended and interval CII were attributed, revealed in October-December 2013 an average of -1.6 % (after +5.4% in this class for the Q3). The indicators of separate funds ranged from -9.1 % to +4.3 %.

34 open-ended, interval and closed-end funds which showed on average -0.3% per quarter (in Q3 - +1.9 %) and excluding the extreme values ( -20.8 % and + 46.1 %) - 1.1 % were recognized as *mixed investment funds* at the end of 2013.

No CII was attributed to *money market funds* for the second quarter in a row. The only fund that was in this class in the Q1 and Q2 2013, in Q4 was liquidated.

Since the beginning of 2013 *bond funds* - those that entered this class in Q4 and worked the whole year having reached the norm of minimal asset value - showed +13.8 %.

*Other" funds* based on the results of the Q4 brought 4.5%, *equity funds* - +4.3 %, and *mixed investment funds* - +1.5 %.

<sup>6</sup> See. [Methodology for Ranking Asset Management Companies and Collective Investment Institutions \(Unit and Corporate Investment Funds\) Based on Their Performance Results.](#)





## **9. Resume**

Against the backdrop of moderate growth of the stock market in Q4 2013, which was contrary to further reduce of the investors' interest as well as to a sharp aggravation of the socio-political situation in the country, the industry of collective investment institutions as a whole continued to grow, and the performance of individual funds was improved.

At that the correlation of stock indexes and indicators of CII in general remained limited - securities in the majority of funds were less than half of the value of assets, and in venture CII - less than a third. In addition, it continued to decline. Only in the sector of open-ended funds connectivity of CII results and dynamics of securities market increased at the end of 2013.

The major changes in the composition and structure of CII portfolios in the last three months of 2013 related to investments in corporate bonds, a reduction of which constituted more than half of the decrease in total assets in securities. Shares of equities and promissory notes became much less during the quarter - mainly because of the influence of changes in the venture and other closed - end funds. And open-ended CII with an exit of investors, experienced the largest reduction in assets in bank accounts, and as well in OVDP.

The main trends in Ukrainian CII market in Q4 2013, in addition to the above mentioned, were the following: a stable number of AMC and continuing growth of CII, traditionally, through venture capital funds; further narrowing in the sectors of open-ended and interval funds due to withdrawal from the market of some AMC and liquidation of funds and, under these conditions, - the weakening twice of capital outflows from open-ended CII; preferred growth of rates of investments in all CII sectors by the types of funds, except for the interval ones, but decreasing - in equity funds and funds of mixed investments (balanced).

From the perspective of CII investors, in particular the institutional ones, venture capital funds retained their attractiveness in Q4, and if the foreign investors took the money out of funds, the Ukrainian ones - increased investments doubled compared to Q3. Similarly, citizens of Ukraine also strengthened their presence in the venture CII, and as a result, their share in NAV for the first time exceeded 5%. Together domestic investors owned about 82 % of CII at the end of 2013.

Due to the more active exit of Ukrainian companies from the open-ended CII, the local retail investors as of 31.12.2013 held almost the same share of the assets, as these institutional investors. In general, Ukrainian citizens practically compensated the quarterly outflows by non-residents from venture capital funds and fully the outflows from the whole industry of CII.

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*Additional information on CII on the UAIB website:*

- The Ukrainian Fund Market in Figures<sup>7</sup>
- Weekly statistics of Open-Ended CII<sup>8</sup>
- Monthly Reviews of Public CII<sup>9</sup>
- CII Rankings<sup>10</sup>
- AMC Rankings<sup>11</sup>

*For enquiries please contact:*

Anastasiia Gavryliuk (Senior analyst & International Relations Coordinator) – [gavrylyuk@uaib.com.ua](mailto:gavrylyuk@uaib.com.ua)

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<sup>7</sup> <http://www.uaib.com.ua/eng/analituaib.html>

<sup>8</sup> [http://www.uaib.com.ua/eng/analituaib/publ\\_ici\\_week.html](http://www.uaib.com.ua/eng/analituaib/publ_ici_week.html)

<sup>9</sup> [http://www.uaib.com.ua/eng/analituaib/publ\\_ici\\_month.html](http://www.uaib.com.ua/eng/analituaib/publ_ici_month.html)

<sup>10</sup> <http://www.uaib.com.ua/eng/analituaib/rankings/ici.html>

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