



UAIB: Open-end CII Annual Performance Review in Ukraine (2008)

2008 became a complex and unexpected year for the securities markets: a rapid growth of the previous period was replaced by an unexpectedly lengthy period of decline, the depth, duration and consequences of which it would be possible to assess only with time. 2008 results surpassed the worst forecasts of analysts and experts from different countries. The key global stock market indicators dropped by 32-49%, Russian indexes MICEX and RTS slumped by 67 and 73% respectively.

Ukrainian PFTS index that had been the growth leader in 2007, in 2008 became the “leader” of the fall and completed the year with the result of -74,33%, having ended the year at 301,42 points. Among the reasons – an excessively rapid growth, “overheated” market during the preceding years, particularly in 2007, significant dependence on the foreign capital, which initially had been one of the key driving force factors in the Ukrainian securities market, and in 2008 caused its deep decline.

Negative development of events in the national stock market, which hardly ever stopped in 2008, exercised a significant pressure on the market of open-end investment funds in Ukraine.

Simultaneously, the number of open-end CII in 2008 continued to grow rapidly, although the rate of the new funds’ establishment somewhat slowed down (+10 compared to +17 in 2007) (see Table 1). Six out of those funds reached compliance with the standards in 2008.

Table 1

Open-end CII registered during 2008

No.	CII name*	AMC name	Fund registration date
1	"Tekt – Stability"	LLC AMC "Tekt Asset Management"	28.02.08
2	"Altus – Strategic"	LLC AMC "Altus Assets Activities"	20.03.08
3	"Tiger White"	LLC “AMC "Tiger Asset Mngement "	04.04.08
4	"Nadbannya"	LLC “AMC "ART – CAPITAL Management"	22.04.08
5	"TD Ukraine Balanced"	LLC “AMC-APF "Troika Dialogue Ukraine"	19.06.08
6	"Feniks – Open Horizons"	LLC “AMC "Fininvest – Group"	26.06.08
7	"Sparta Balanced"	CJSC "AMC "SPARTA"	01.07.08
8	"Premium – Money Market Fund"	LLC “MC “Sokrat”	03.09.08
9	"Prioritet Money Market"	LLC “AMC "PRIORITET FINANCE"	25.09.08
10	"Redix Union"	LLC “AMC "Redix Asset Management "	26.09.08

* All CII listed are open-ended diversified unit investment funds.

According to UAIB data, as of 30 December 2008, there were thirty six open-end collective investment institutions registered in Ukraine, which were managed by twenty five asset management companies. Therefore, eight new AMC entered the open-end CII market during the year.

The number of open-end funds that reached compliance with the standards as to the minimal asset volume in 2008 reached thirty two, and the number of their AMC – twenty two companies. One fund – “SEM Index” (LLC “AMC “Community Asset Management”) was recognized such that did not comply with the standards as to the minimal asset volume and was deleted from the Single State Registry of Collective Investment Institutions.

Registration of new open-end CII in 2008 could be explained by the expectations of a change of the stock market's downturn trend by the upturn one with high growth rate prospects in the short term. A fairly long period of funds' establishment, forecasted "unfolding" of the market, which was heating up the demand for open-end CII on the part of existing and potential investors, would give grounds to AMC to regard as expedient bringing open-end funds to the market during the period in question. However, closer to the year end, due to the deepening of the financial and economic crisis, the activities of AMC in that area flattened out. In the meanwhile, the dynamics of recognizing funds as such that reached compliance with the standards in 2008 was rather even (see Chart 1).

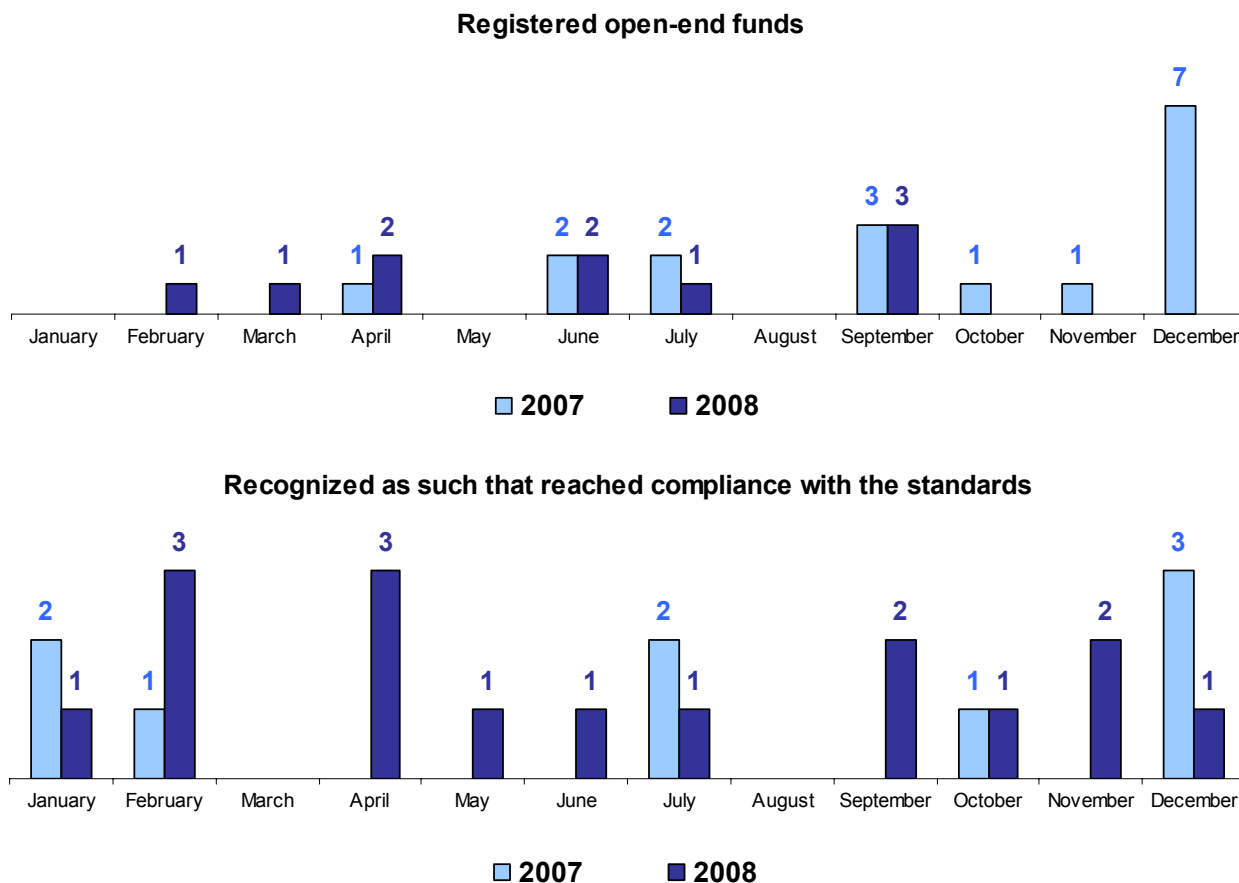


Chart 1. New open-end CIIs' dynamics of establishment and reaching compliance with the standards over 2007 and 2008

An aggregate volume of registered issuances of open-end funds grew by 27,7% in 2008, having reached above UAH 2,9 bln. At that, the issuance amount in 2008 was approximately twice smaller than in 2007.

This analytical review is based on the performance results of 21 open-end collective investment institutions which were recognized as such that reached compliance with the standards and actually started placement of certificates at net asset value before 1 December 2008. Those funds were managed by 14 AMC, which filed respective information with the UAIB in timely manner and in full scope¹. Funds "Nadbannia" of LLC "AMC "ART – CAPITAL Management" and "TD Ukraine Balanced" of LLC "AMC-APF "Troika Dialogue Ukraine", that reached compliance with the standards after the said date have not been included into the review.

Due to the lengthy and deep securities market decline, weakening trust towards financial institutions, including investment funds, and high sensitivity of open-end CII to market situation, their performance results in 2008 were weak (see Table 2).

¹ The final date as of which indicators of this review are provided – 30.12.2008.

Table 2

Open-end investment funds as of 30.12.2008
(ranking by the change of investment certificate's (IC) value over 2008)

Fund name	Asset management company (AMC) name	Change of the value of investments into fund over 2008, %	Fund registration date	Date of reaching compliance with the standards by fund	IC nominal value, UAH	Net asset value, UAH	Number of IC placed, pieces	Net asset value per one IC, UAH	Change of the value of investments into fund since the beginning of its operation (registration), %	Average annual change of the value of investments into the fund, % per annum
"SEB Money Market Fund "	LLC AMC "SEB Asset Management Ukraine"	-6.41%	15.12.2006	09.07.2007	1000	1 626 941.30	1 536	1 059.21	5.92%	4.00%
"Delta – Money Market Fund"	LLC AMC "Delta-Capital"	-9.32%	19.06.2007	04.12.2007	1000	2 547 873.27	2 636	966.57	-3.34%	-3.11%
"Delta – Fund Balanced"	LLC AMC "Delta-Capital"	-17.78%	19.06.2007	04.12.2007	1000	4 625 904.70	5 111	905.09	-9.49%	-8.84%
"Volodymyr The Great"	LLC "AMC "Univer Management"	-21.70%	21.07.2006	10.01.2007	1000	1 322 518.60	997	1 326.50	32.65%	16.55%
"Parex Ukrainian Bond Fund"	LLC AMC APF "Parex Asset Management Ukraine"	-25.29%	13.06.2005	06.12.2005	10	7 810 323.49	532 293	14.67	46.73%	15.23%
"Altus- Balanced"	LLC AMC "Altus Assets Activities"	-32.18%	21.04.2006	22.10.2006	1000	29 726 929.58	24 849.00	1 196.30	19.63%	8.96%
"Yaroslav The Wise – Equity Fund"	LLC AMC "Univer Management"	-33.04%	21.07.2006	10.01.2007	1000	1 958 238.14	1 563	1 252.87	25.29%	12.82%
"Classic"	OJSC "Kinto"	-35.71%	11.05.2004	14.07.2004	100	42 331 899.59	125 138	338.28	238.28%	53.36%
"Magister-Fund Balanced"	LLC AMC "Magister"	-38.70%	17.04.2007	09.10.2007	1000	848 443.12	1 125	754.17	-24.58%	-20.03%
"Premium – Balanced Fund"	LLC "MC "Sokrat"	-40.46%	20.05.2005	13.10.2005	1000	11 588 588.17	6 922	1 674.17	67.42%	20.96%
"Parex Ukrainian Balanced Fund"	LLC AMC APF "Parex Asset Management Ukraine"	-41.34%	13.06.2005	15.01.2006	10	42 467 717.35	3 240 886	13.10	31.04%	10.49%
"SEB Balanced Fund"	LLC AMC "SEB Asset Management Ukraine"	-45.26%	15.12.2006	09.07.2007	100	3 985 818.54	60 490	65.89	-34.11%	-23.05%
"Concorde Stability"	LLC "AMC "Concorde Asset Management"	-55.31%	06.07.2007	27.12.2007	100	1 474 375.77	32 990	44.69	-55.31%	-54.71%
"Concorde Dostatok"	LLC "AMC "Concorde Asset Management"	n/a	06.07.2007	24.01.2008	100	14 099 715.45	245 575	57.42	-42.58%	*
"Premium – Index Fund"	LLC "MC" Sokrat"	n/a	23.10.2007	31.01.2008	1000	12 811 518.32	19 322	663.05	-33.69%	*
"OTP Classic"	LLC "AMC "OTP Capital"	n/a	27.11.2007	21.05.2008	1000	1 470 651.61	1 578	931.97	-6.80%	*
"TASK Resurs"	LLC "AMC "TASK-Invest"	n/a	13.12.2007	19.06.2008	1000	1 508 745.89	2 419	623.71	-37.63%	*
"Patron"	LLC "All-Ukrainian Management Company"	n/a	27.12.2007	24.09.2008	100	492 500.98	7 536	65.35	-34.65%	*
"Sparta Balanced"	CJSC "Asset Management Company "Sparta"	n/a	01.07.2008	24.09.2008	100	86 235 339.77	802 887	107.41	7.41%	*
"Altus-Strategic"	LLC AMC "Tekt Asset Management"	n/a	20.03.2008	24.09.2008	1000	3 684 678.00	3 577	1 030.10	3.01%	*
"Tiger White"	LLC "AMC "Tiger Asset Management"	n/a	04.04.2008	03.11.2008	1000	394 599.08	474	832.49	-16.75%	*

* No data for calculation available. ** This indicator is not representative, as the fund was registered less than a year ago.

Net asset value of open-end CII as of 30.12.2008 reached UAH 273 013,32 thsd. For the thirteen funds that reached compliance with the standards before 1 January 2008, NAV drop comprised UAH 344 398,98 thsd. (-69,34%). In contrast to 2007, in 2008 a positive change of NAV occurred only in February and December (see Chart 2).

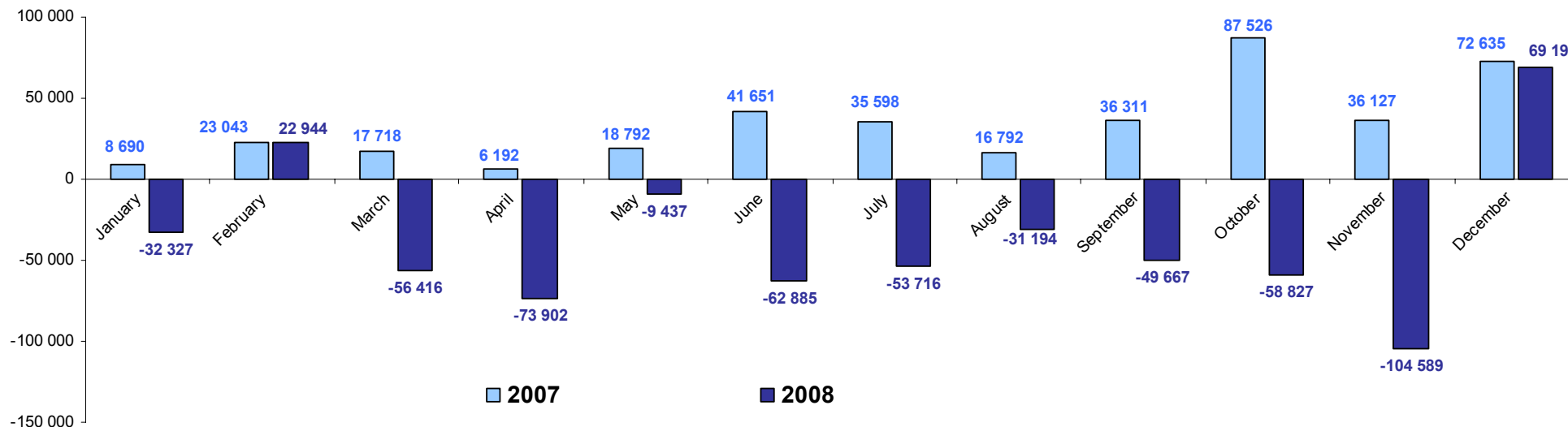


Chart 2. Open-end CII market NAV change (growth) dynamics in 2007 and 2008, UAH thsd.
(for the funds that reached compliance with the standards before the beginning of a respective month)

In February, the market's net assets growth was due to reaching compliance with the standards by a big fund "Concorde Dostatok", as well as due to the flow of capital to open-end funds after January stock market decline, which at that time was not expected to continue for so long. Furthermore, open-end funds' investments value also somewhat increased during that month. In December, a rapid increase of open-end funds' NAV occurred exceptionally due to "Sparta Balanced" Fund (see Chart 5). On the whole, during the year changes in the industry NAV were caused by: an entry/exit of investors (see Chart 4, 6), stock market fluctuations (and hence – by the value of CII investments), and new funds coming to the market.

Open-end investment funds' net asset value dynamics and its changes during each month of 2008 are shown in Chart 3.

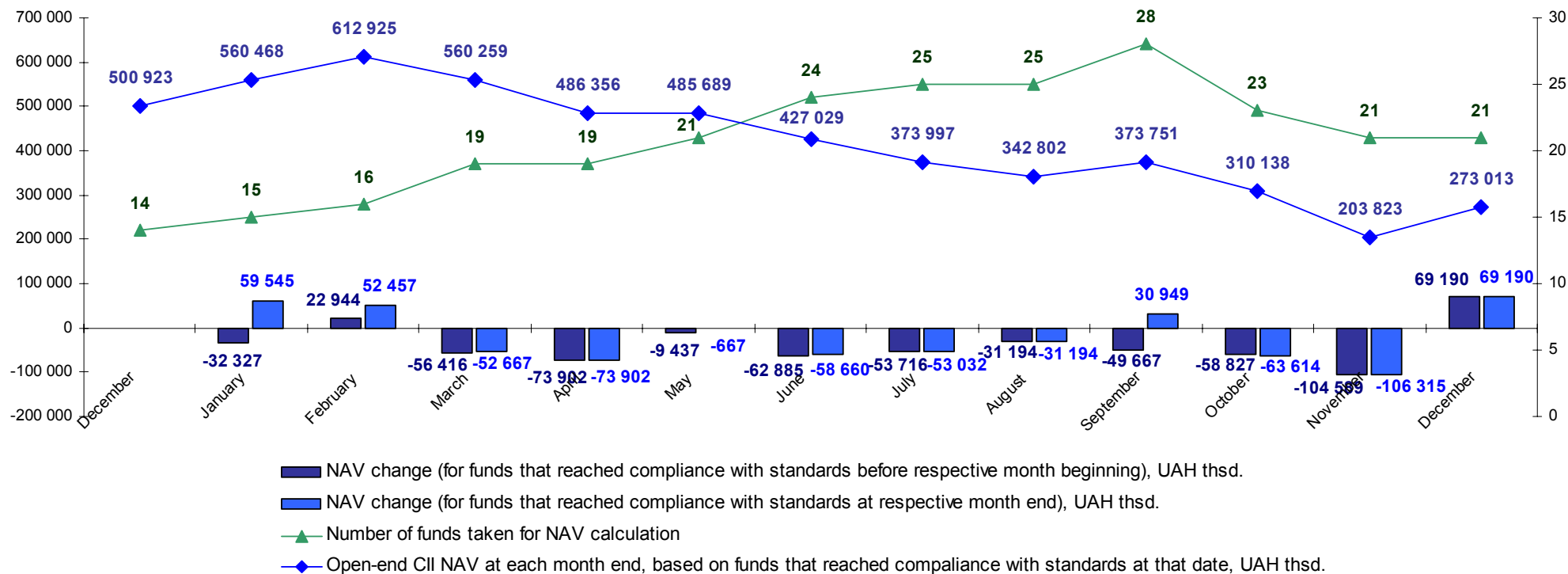


Chart 3. Open-end CII market NAV dynamics and changes during 2008

The dynamics of open-end CII certificates' number in circulation during the year was, as a rule, linked to the periods of increasing decline in the stock market, which was pushing investors to withdraw their investments from the funds. Also, investors' exit from open-end CII was "supported" by high inflation rate and increasing interest rates on bank deposits.

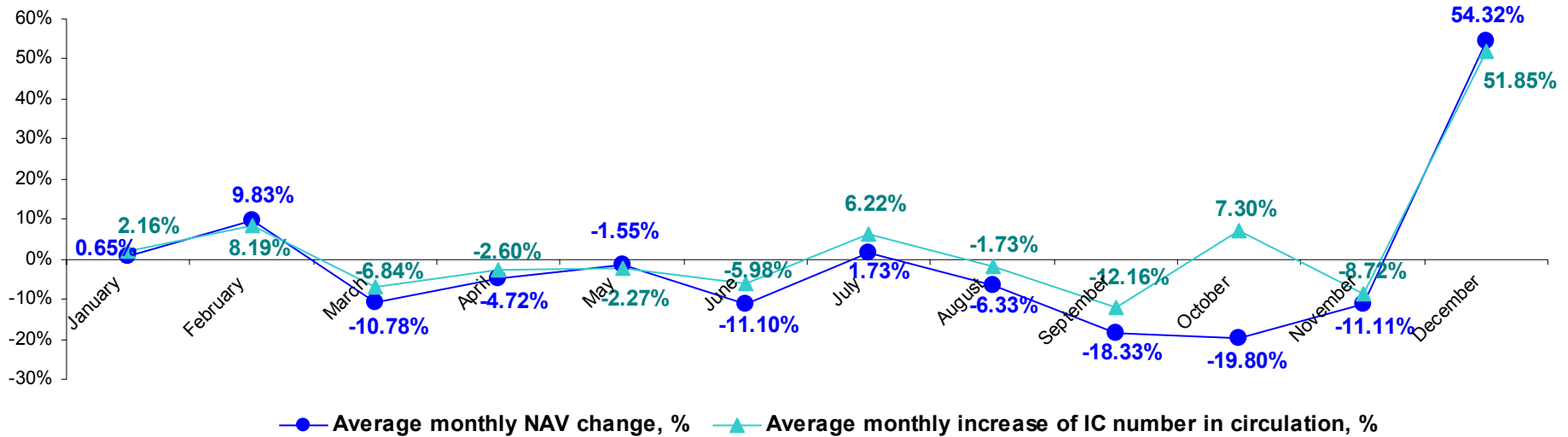


Chart 4. Open-end CII average NAV change and an average number of IC in circulation change dynamics during 2008

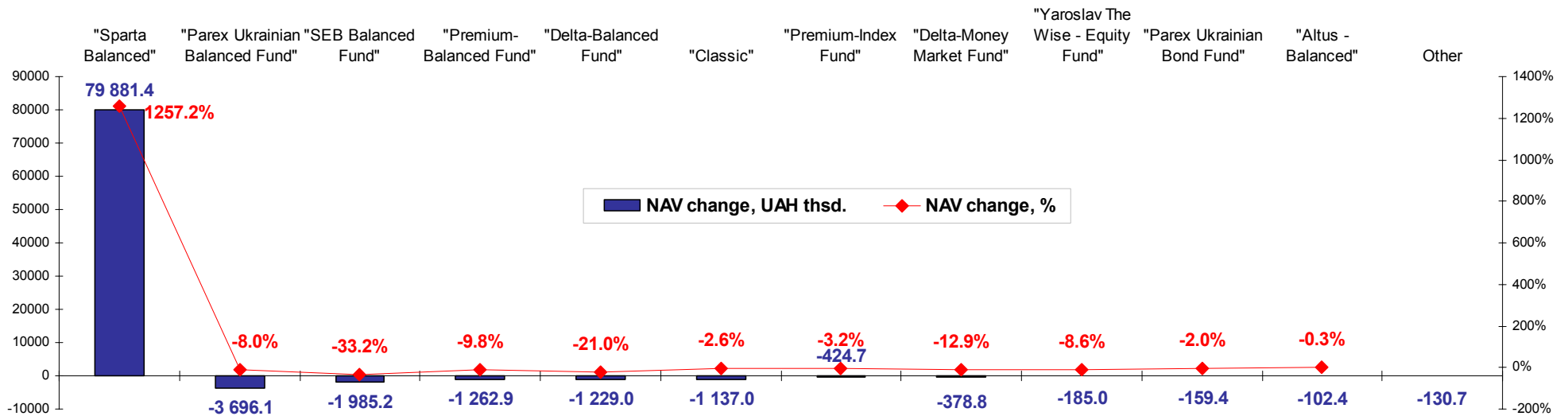


Chart 5. Open-end CII NAV change over December 2008

An energetic growth of *"Sparta Balanced"* Fund in December (UAH 79 881,39 thsd., +1257,19%) took place after the drop of the fund's NAV by 92,64% in December. Such fluctuations were due to a quick outflow of investors' moneys in November (the number of the fund's certificates in circulation decreased by 92,72%) and an opposite dynamics in December (+1207,74%). In other words, by year end the fund's net assets went back to the level of the end of October – start of November.

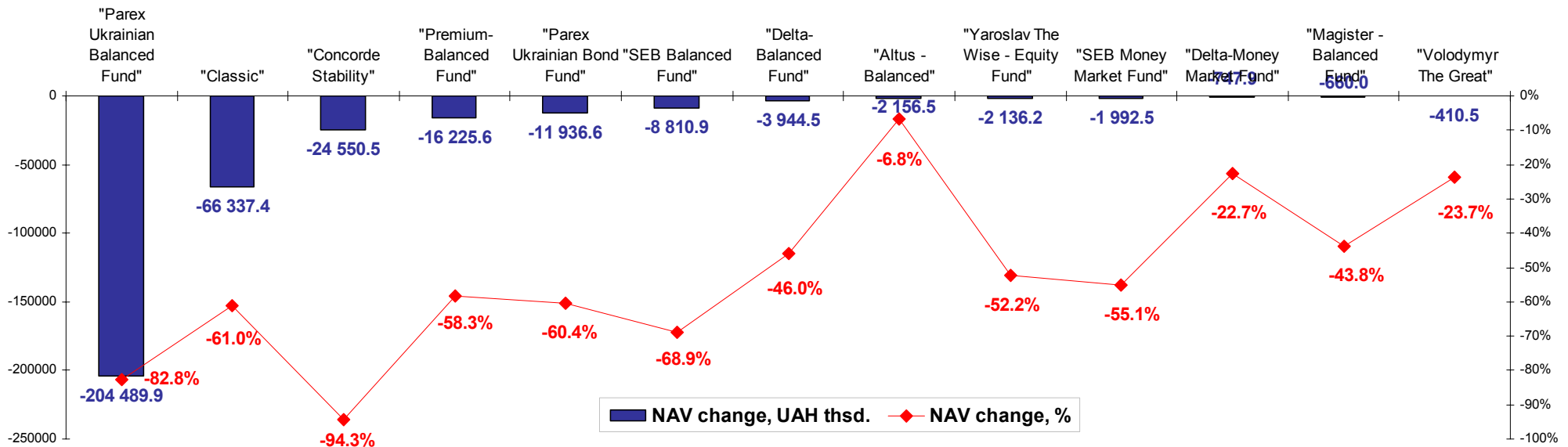


Chart 6. Open-end CII NAV change over 2008
(for the funds that reached compliance with the standards before 1 January 2008)

In 2008, the greatest NAV decrease was experienced by *"Parex Ukrainian Balanced Fund"* (UAH 204 489,87 thsd., -82,8%), the volume of securities placed with investors of which went down by 70,68%. This fund's share within an aggregate NAV decrease of the thirteen funds, which were recognized as such that reached compliance with the standards by 1 January 2008, amounted to 59,38%.

A significant drop of NAV both in absolute and relative value terms was also registered in case of funds *"Classic"* (UAH 66 337,44 thsd., -61,05%) and *"Concorde Stability"* (UAH 24 550,47 thsd., -94,33%). At that, during the year, the number of certificates belonging to the investors of the former dropped by 39,4%, and of the latter – by 86,04%.

Relatively positive, compared to its competitors', dynamics of the net assets of *"Altus Balanced"* Fund could be explained by 37,48% increase in the net number of its certificates sold to investors (only during January 2008 – 30,87% increase), which nearly made up for the drop of the value of investments in the fund's portfolio.

A growing number of the market participants and different NAV volume dynamics of the funds have resulted in significant changes in the **distribution of the net assets of open-end CII**. Chart 7a gives an idea of the dynamics of each fund's share in the aggregate NAV within the group of funds that were placed at net asset value during an entire year of 2008. An actual distribution of an entire open-end CII market's NAV as of 30.12.2008 can be seen in Chart 7b.

Therefore, monopoly in the market was weakening, an average stake of one fund shrinking to 3-4%. In the meantime, by the end of 2008 compliance with the standards was reached by Fund "Sparta Balanced", which with its NAV of UAH 86 235,34 thsd. captured a share of 31,6%. The respective shares of "old" big funds "Parex Ukrainian Balanced Fund" and "Classic" became nearly equal, having shrank to 15,6% and 15,5% accordingly. Due to a relatively small decrease of NAV during the year, "Altus Balanced" Fund managed to considerably grow its share within the aggregate NAV (10,9%).

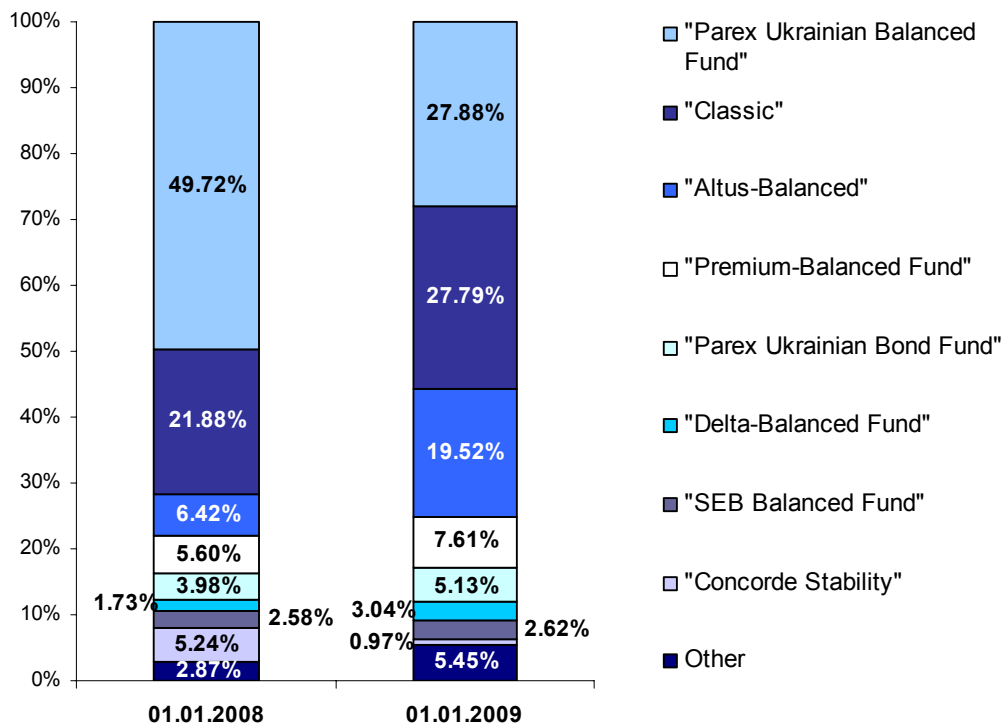


Chart 7a. Dynamics of NAV distribution among open-end CII that reached compliance with the standards before 1 January 2008

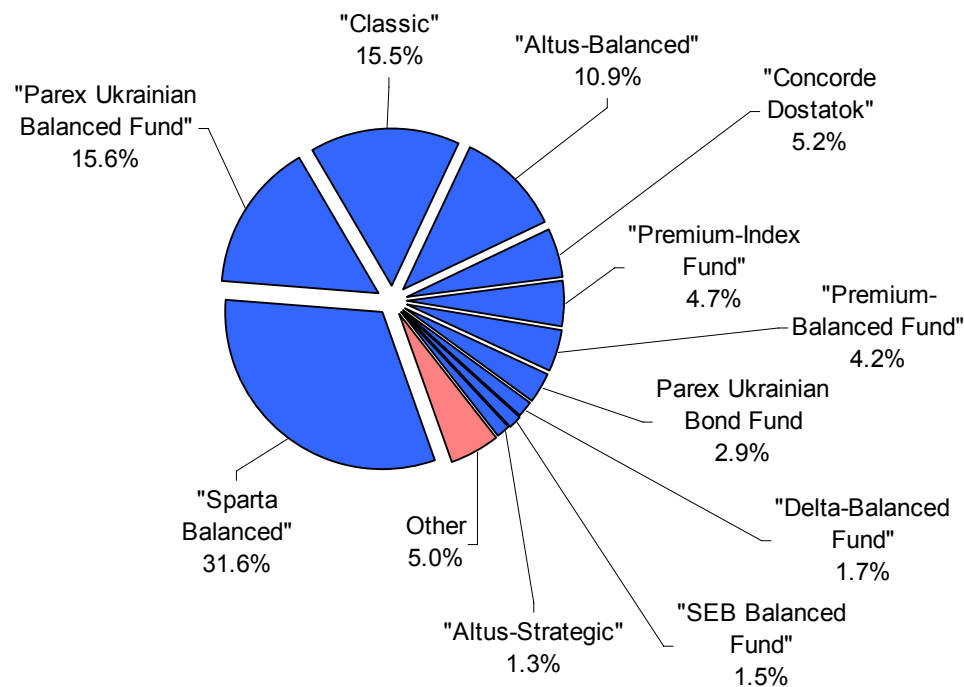
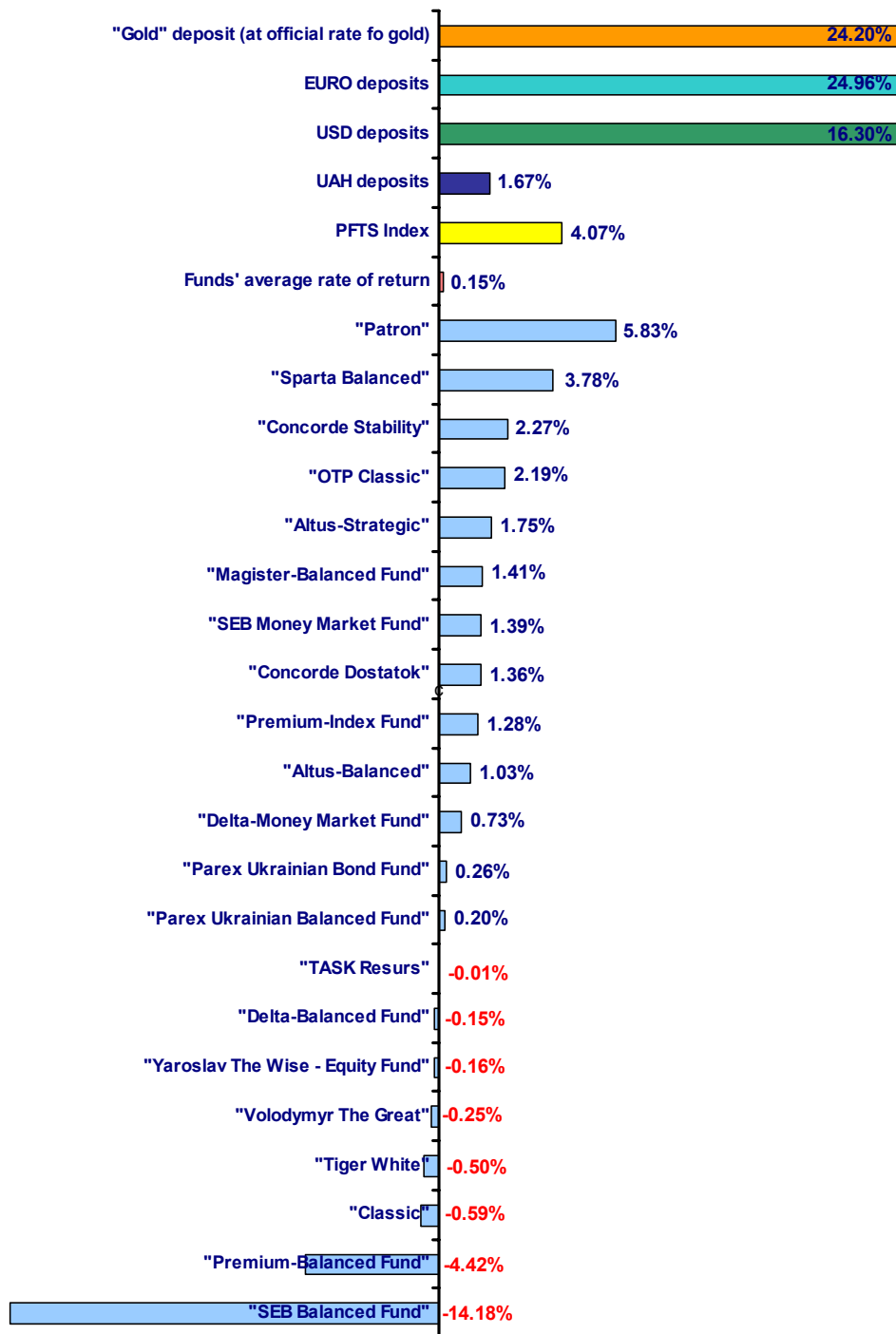


Chart 7b. Open-end CII shares within an aggregate NAV volume as of 30.12.2008



Following a common market downturn trend, open-end CII, as a rule, would demonstrate negative change of their certificates' value in 2008.

During the last month of the year, optimistic moods prevailed in the global markets, which was due to the expectations of a nearing end of recession, which, together with a traditional end-of-the-year pickup, provided for the Ukrainian stock market growth by 4,07% (see Chart 8). **The rates of return** of open-end funds in December differed a lot. The majority of them, in particular, thirteen funds, provided for a positive growth of investments. *"Patron"*, having brought +5,83% to its investors, became the leader. Funds *"Sparta Balanced"* (+3,78%) and *"Concorde Stability"* (2,27%) also became the leaders. Low average rate of return of open-end CII for that month (+0,15%) was conditioned by a rapid value loss of the certificates of *"SEB Balanced Fund"* (-14,18%), which impaired that market participant's annual result having reduced it to -45,26% (Tables 2 and 3).

An average **change of open-end CII certificates' value in 2008** comprised -30,96%. *"SEB Money Market Fund"* became the fund that ensured the lowest losses for its investors (-6,41%). In December it generated a positive result (+1,39%). This fund's aggregate net asset value dynamics, just as the certificate's value dynamics, were comparatively "smooth" during the year, which could be explained by the fund's conservative strategy, as well as by an absence of significant fluctuations in the number of the fund's certificates placed with investors.

← **Chart 8. Value change of investments into open-end funds, on bank deposits and in precious metals (gold) during December 2008**

The indicators of the value dynamics of investments into open-end funds, deposits in different currencies and PFTS index change during year 2008 adjusted for inflation (see Table 3) demonstrate two unquestionable leaders – USD and EURO deposits. Those deposits generated super profits to the owners that opened those deposits before an abrupt devaluation of Hryvnia started in September 2008.

Table 3

Rate of return on different investment instruments in 2008, adjusted for inflation*

	Nominal value change	Value change adjusted for inflation
USD deposits	71.93%	40.58%
"Gold" deposit (at official rate of gold)	70.24%	39.20%
EURO deposits	60.21%	30.99%
UAH deposits	15.00%	-5.97%
<i>Funds' average rate of return</i>	<i>-30.96%</i>	<i>-43.55%</i>
"SEB Money Market Fund"	-6.41%	-23.48%
"Delta-Money Market Fund"	-9.32%	-25.86%
"Delta-Balanced Fund"	-17.78%	-32.77%
"Volodymyr The Great"	-21.70%	-35.98%
"Parex Ukrainian Bond Fund"	-25.29%	-38.91%
"Altus - Balanced"	-32.18%	-44.55%
"Yaroslav The Wise – Equity Fund"	-33.04%	-45.25%
"Classic"	-35.71%	-47.43%
"Magister – Balanced Fund"	-38.70%	-49.88%
"Premium – Balanced Fund"	-40.46%	-51.32%
"Parex Ukrainian Balanced Fund"	-41.34%	-52.04%
"SEB Balanced Fund"	-45.26%	-55.24%
"Concorde Stability"	-55.31%	-63.46%
<i>PFTS Index</i>	<i>-74.33%</i>	<i>-79.01%</i>

* According to the data of the State Statistics Committee of Ukraine, in year 2008 the inflation rate reached 22,3% (December through December).

At the same time, against the background of abrupt PFTS index fluctuations, the dynamics of an average rate of return of open-end CII demonstrated a greater stability (see Chart 9), though the normative restrictions on the funds' asset structure and a considerable outflow of investors' moneys were the factors causing permanent pressure.

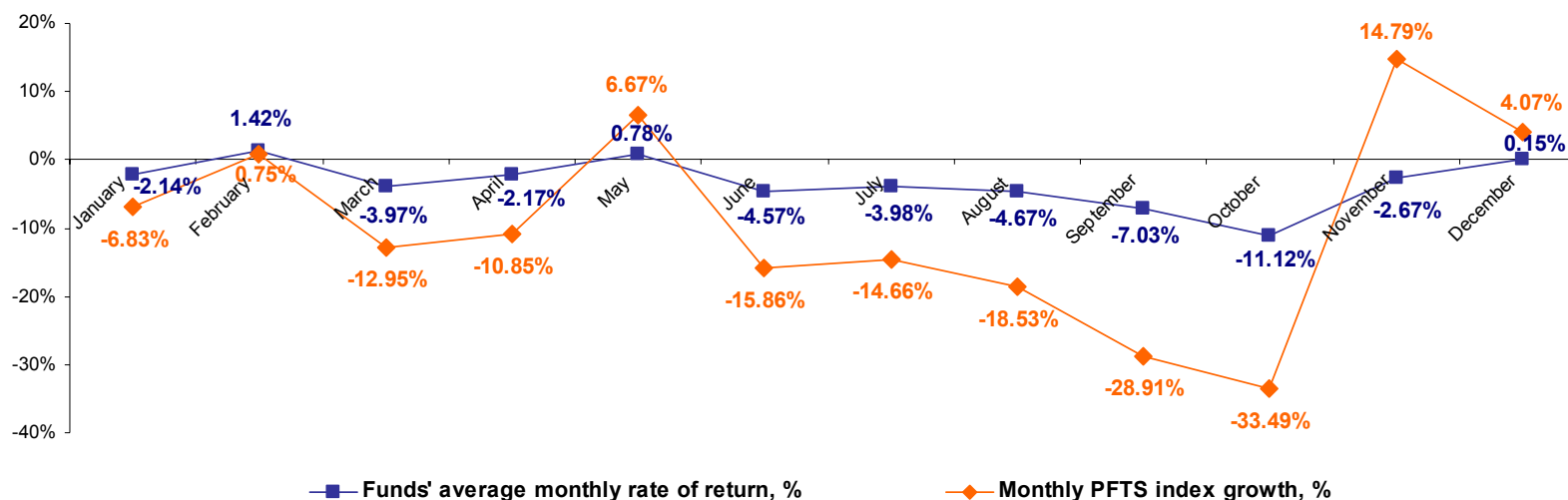


Chart 9. Average change of open-end funds' IC value and PFTS index change dynamics during 2008

In 2008, the picture of net asset value distribution by the categories of investors underwent considerable changes. Participation of legal entities - non-residents in open-end CII dropped nearly twice. Such changes, on the one hand, were due to the fact that investors belonging to the said category would most actively exit from the funds during the year. On the other hand, a decrease of the share of legal entities – non-residents, just as of individuals – residents, was to a great extent affected by an appearance in the market of a new big fund, almost entirely belonging to the legal entities – residents ("Sparta Balanced", 98,88%). That caused a 6.5 times increase of their share within the aggregate market assets (see Table 4).

Table 4

Open-end CII aggregate NAV distribution by investor categories in 2007-2008

Date	Share within an aggregate NAV of open-end CII belonging to			
	legal entities		individuals	
	residents	non-residents	residents	non-residents
31.12.06	4.23%	42.11%	52.62%	1.04%
31.12.07	5.81%	49.83%	43.94%	0.42%
30.12.08	37.75%	25.70%	36.31%	0.23%

Table 5 demonstrates the share of Ukrainian citizens' moneys in open-end funds as of the end of 2006 through 2008. The greatest share within the NAV of "Delta – Money Market Fund" and "SEB Money Market Fund" belongs to legal entities – residents (98,1% and 66,15% accordingly), and in case of "Parex Ukrainian Bond Fund" – to legal entities–non-residents (94,93%).

Table 5

Share of individuals – residents within the net assets of open-end funds in 2007 through 2008

CII name*	Asset management company (AMC) name	31.12.2006	31.12.2007	30.12.2008
"OTP Classic"	LLC "AMC "OTP Capital"	n/a	n/a	100.0%
"Patron"	LLC "All-Ukrainian Management Company"	n/a	n/a	100.0%
"Concorde Stability"	LLC "AMC "Concorde Asset Management"	n/a	90.6%	99.9%
"Classic"	OJSC "Kinto"	67.8%	76.4%	94.8%
"Tiger White"	LLC "AMC "Tiger Asset Management"	n/a	n/a	89.9%
"Premium – Balanced Fund"	LLC "MC "Sokrat"	72.5%	90.5%	75.5%
"Premium – Index Fund"	LLC "MC "Sokrat"	n/a	98.1%	72.6%
"Yaroslav The Wise – Equity Fund"	LLC "AMC "Univer Management"	10.2%	73.9%	67.1%
"TASK Resurs"	LLC "AMC "TASK-Invest"	n/a	n/a	58.0%
"Altus - Strategic"	LLC AMC "Tekt Asset Management"	n/a	n/a	47.5%
"Volodymyr The Great"	LLC "AMC "Univer Management"	1.0%	46.2%	44.8%
"Concorde Dostatok"	LLC "AMC "Concorde Asset Management"	n/a	61.8%	37.7%
"SEB Balanced Fund"	LLC AMC "SEB Asset Management Ukraine"	n/a	54.4%	36.8%
"Altus - Balanced"	LLC AMC "Altus Assets Activities"	67.1%	55.1%	35.7%
"Parex Ukrainian Balanced Fund"	" LLC AMC APF "Parex Asset Management Ukraine"	18.6%	21.7%	29.0%
"Delta – Balanced Fund"	LLC AMC "Delta - Capital"	n/a	35.8%	27.9%
"Magister – Balanced Fund"	LLC AMC "Magister"	n/a	23.3%	20.9%
"Parex Ukrainian Bond Fund"	LLC AMC APF "Parex Asset Management Ukraine"	0.3%	4.1%	4.2%
"SEB Money Market Fund"	LLC AMC "SEB Asset Management Ukraine"	n/a	6.7%	4.0%
"Delta – Money Market Fund"	LLC AMC "Delta - Capital"	n/a	3.0%	1.9%
"Sparta Balanced"	CJSC "Asset Management Company "Sparta"	n/a	n/a	1.1%

Hence, there is no doubt that the financial and economic crisis started in 2008 has seriously affected the operations of open-end collective investment institutions in Ukraine. In the opinion of many experts, overrated in 2007, Ukrainian stock market in 2008 fell below the fair price level. Therefore, a considerable potential for future growth has been formed for the market on the whole, as well as for the open-end CII industry in particular. Passed by the end of 2008 Law of Ukraine "On Amendments to the Law of Ukraine "On Collective Investment Institutions (Unit and Corporate Investment Funds)" is expected to improve the situation. The Law, in particular, allows open-end funds' managers to form a more flexible asset structure and expands the opportunities allowing to avoid losses in the situation of market decline.