

Analytical Review of the Collective Investments Market in 2008

Table of Contents

1. Ukrainian Stock Market
2. AMC and CII Number
3. Regional Distribution of AMC and CII
4. CII Asset Value
5. Non-venture CII Net Asset Value
6. CII Asset Structure
7. CII Return
8. CII Cost Structure
9. Distribution of Non-venture CII Net Assets by the Types of Owners
10. AMC Owners Equity
11. NPF Operations
12. Resume

1. Ukrainian Stock Market

2008 became the first year of trial for the collective investment institutions. By the level of decline in returns, the national stock market took second place after the Russian one. PFTS index dropped by 74,33% during that period (Table 1). The mortgage crisis that started in the USA in August 2007 and spread to the majority of world financial markets, affected Ukrainian stock market as well, having caused its decline.

Table 1

National markets' stock indexes in 2008

Index	01.01.2008	31.12.2008	Annual return
PFTS (Ukraine)	1174,02	301,42	-74,33%
RTS (Russia)	3158,76	631,89	-80,00%
HANG SENG (China)	27812,65	14235,5	-48,82%
WSE WIG (Poland)	55648,53	27228,641	-51,07%
DAX (Germany)	8038,6	4810,2	-40,16%
S&P 500 (USA)	1468,36	903,25	-38,49%
FTSE 100 (Great Britain)	6456,9	4434,17	-31,33%
NIKKEI 225 (Japan)	15307,78	8859,56	-42,12%

Such situation in the stock market, which is the key place of investments of venture, as well as non-venture funds, explains the performance of the collective investments market in 2008 in terms of the number of market entities and the volumes of investments attracted thereto, as well as in terms of the return on investments.

2. AMC and CII Number

The number of AMCs in 2008 grew by 22,5%. According to the data of annual reports filed, 409 companies were in operation in Ukraine (Chart 1). An average number of CII per one AMC went up from 2,3 at year beginning to 3,0 at year end. An average value of assets managed by one company went down by 13,5% and at year end comprised UAH 154,7M (at year beginning – UAH 178,9M).

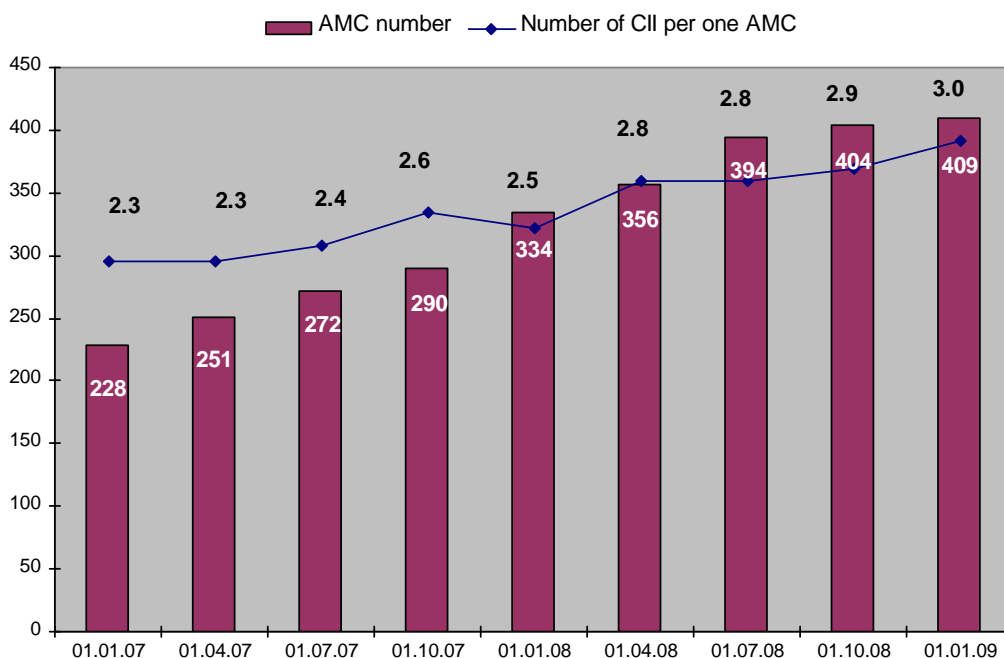


Chart 1. AMC and CII per on AMC number dynamics in 2007-2008

According the data of the Unified State Registry of Collective Investment Institutions, the number of CII in 2008 grew by 53,9% - from 577 funds at year beginning to 888 funds at year end (Table 2). The greatest growth in relative terms (+128,6%) was demonstrated by open-end CII: from 14 at year beginning to 32 – at year end, which may be regarded as an evidence of growing popularity of such funds and demand for them (in the beginning of 2008), though that was mostly due to a considerable time gap between the moment of decision-making on creation of an open-end fund and the moment when the fund actually enters the market. A decline in the number of CII could be expected in 2009.

An average size of CII assets at 2008 end comprised UAH 20,8M, which is 27,51% more than last year.

Table 2

CII number dynamics in 2008 by the categories and types of CII

Period	Total	PIF					CIF		
		Open-end	Interval	Close-end diversified	Close-end non-diversified	Venture	Interval	Close-end non-diversified	Venture
01.01.2008	577	14	25	3	15	423	-	63	34
31.12.2008	888	32	41	4	22	636	1	107	45
Growth	53,9%	128,6%	64,0%	33,3%	46,7%	50,4%	-	69,8%	32,4%

3. Regional Distribution of AMC and CII

Among the regions, these are Kyiv and Kyiv Region that lead both by the number of AMC and CII and by the total value of investment funds' assets in their management, where 329 AMC (Chart 2) and 69,99% of CII (Chart 3) are located, whose assets comprise 70,90% of the total asset volume (Chart 4).

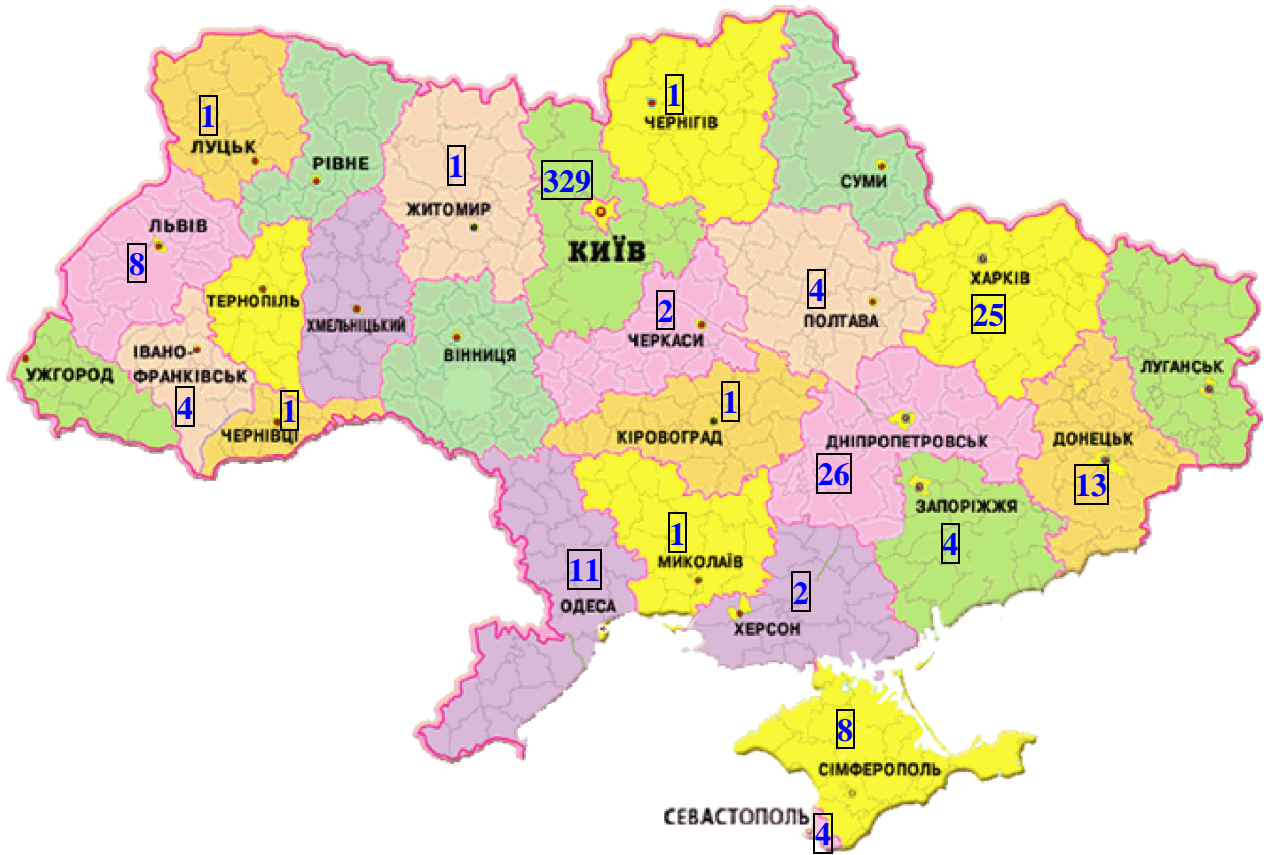


Chart 2. Regional distribution of AMC as of 31.12.2008

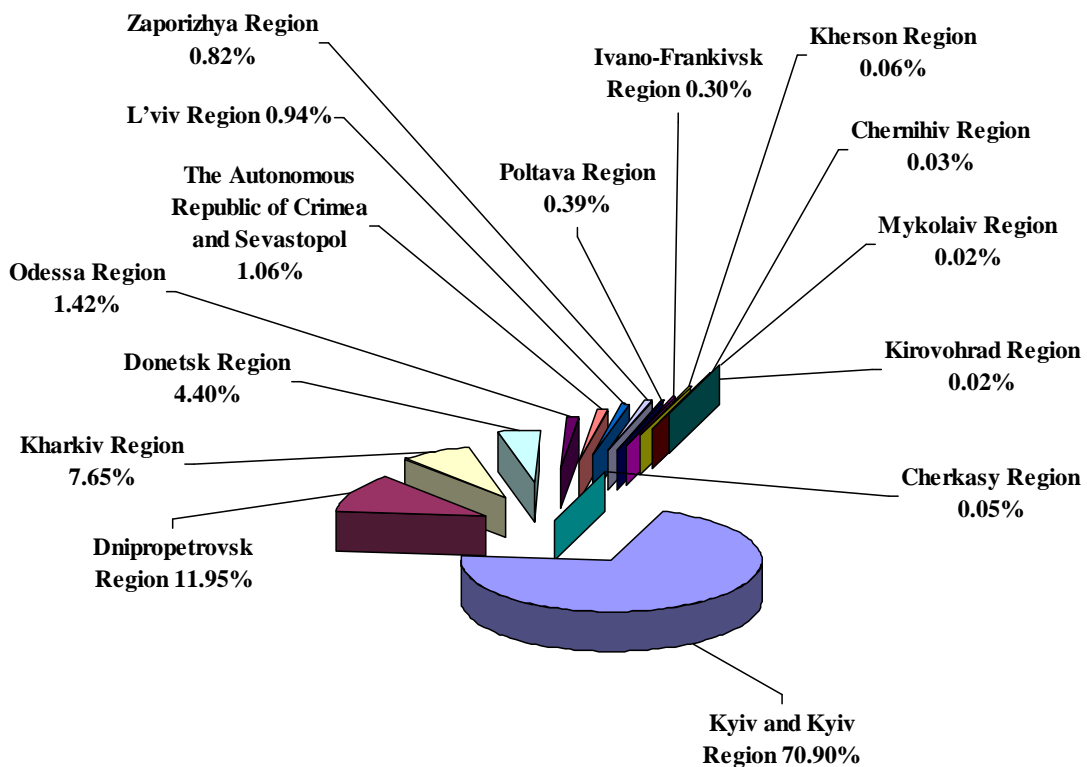


Chart 3. Distribution of the number of CII by the regions of Ukraine as of 31.12.2008

Second place by CII number and asset value is held by Dnipropetrovsk Region (9,03% of CII and 11,95% of assets), and the third one – by Kharkiv Region – (6,99% of CII and 7,65% of assets).

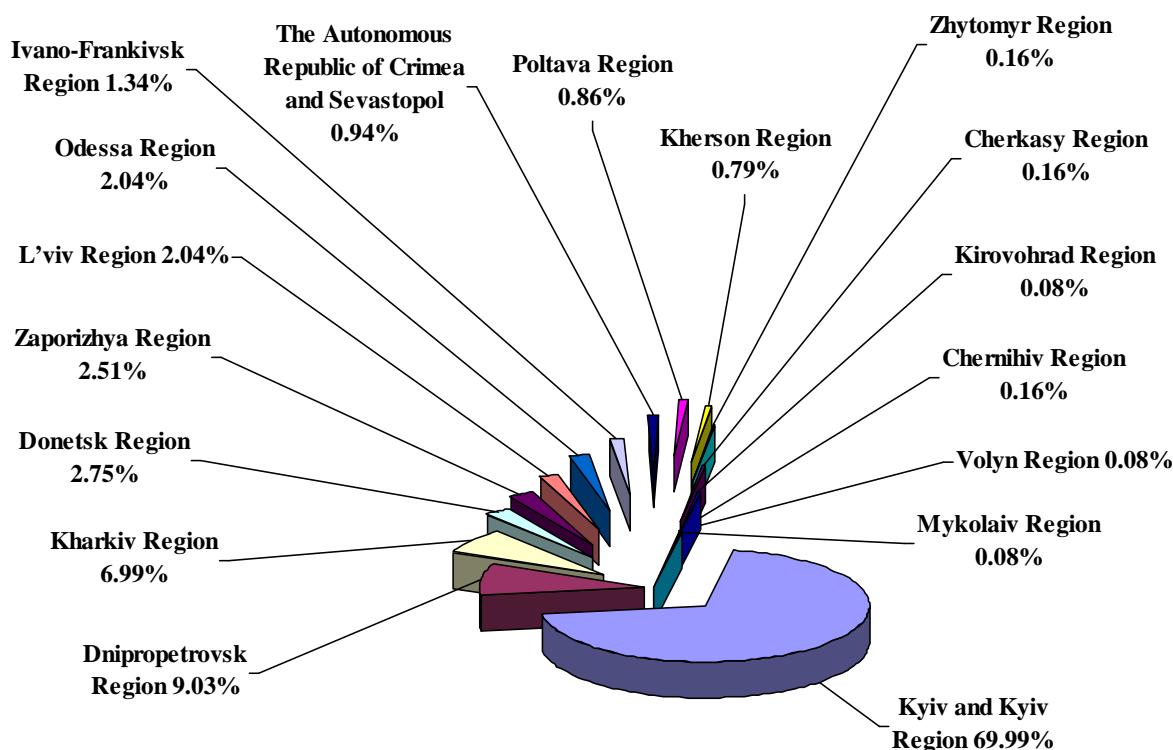


Chart 4. Distribution of CII assets by the regions of Ukraine as of 31.12.2008

4. CII Asset Value

Aggregate CII asset value in 2008 went up by 55,14% and amounted to UAH 63 265,05 M (Chart 5). We will note that the greatest growth, about 14,09%, occurred in the second quarter, which is probably is due to investors' response to the positive news relating to the returns of the Ukrainian securities market and CII during the last quarter of 2007 and the first quarter of 2008.

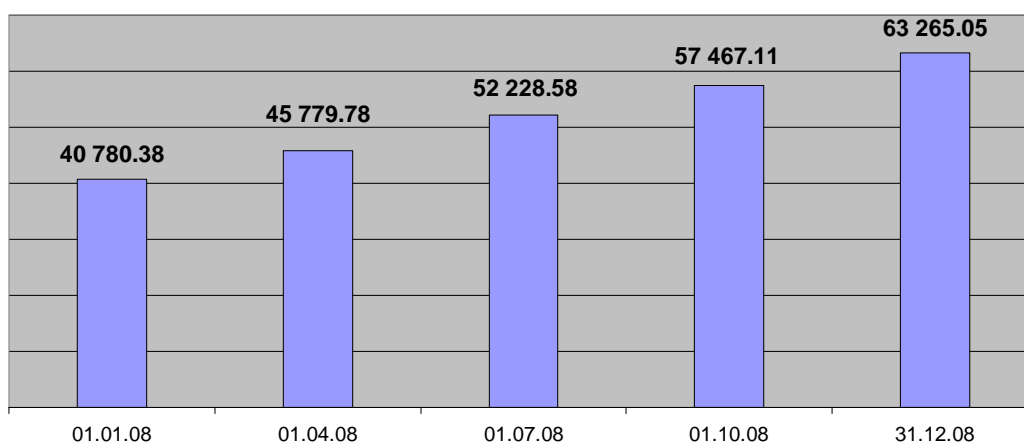


Chart 5. CII asset value dynamics in 2008, UAH M

As a result of such growth, the share of CII assets within the GDP went up from 5,82% to 6,66% (+14,44%), whilst the share of moneys attracted to the banking system within the GDP decreased from 39,92% to 22,64% (-23,11%) (Table 3). At that, the ratio of CII assets to the moneys attracted by banks during 2008 increased from 14,6% to 29,14%, which is due to a great deposit outflow from banks occurring by the end of 2008.

Table 3

Volumes of CII assets and moneys attracted to the banking system compared to GDP in 2008

	31.12.2007		31.12.2008		Growth	Growth of share within GDP
	UAH M	Share within GDP	UAH M	Share within GDP ¹		
Moneys attracted by banks ²	279 738	39,92%	215 087	22,64%	-23,11%	-43,28%
CII assets	40 780	5,82%	63 265	6,66%	55,14%	14,44%

Among non-venture funds, asset value growth in 2008 was demonstrated by close-end CII, whose aggregate asset value grew by 14,98% and at year end comprised UAH 3 785,99M (Table 4). The second place went to open-end funds, whose annual asset growth comprised 3,74%. At year end, their asset value amounted to UAH 593,31M. Interval funds suffered from the crisis most: their annual decline reached 37,20%, and asset value dropped to UAH 185,05M.

The greatest growth rate was observed in venture funds. In 2008, their aggregate asset value went up by 61,02% and comprised UAH 58 694,30M.

Table 4

CII asset value dynamics by the types of funds in 2008

Funds	31.12.2007, UAH M	31.12.2008, UAH M	Growth for the year
Open-end	571,93	593,31	3,74%
Interval	294,65	185,05	-37,20%
Close-end (non-venture)	3 292,76	3 785,99	14,98%
Venture	36 451,98	58 694,30	61,02%
All	40 780,38	63 265,05	55,14%

As asset value of different types of funds was growing unevenly, their proportion at year end also somewhat changed (Chart 6). Just as before, the lion's share of CII assets belongs to venture funds. During 2008 it increased a little – from 91,99% to 92,78%.

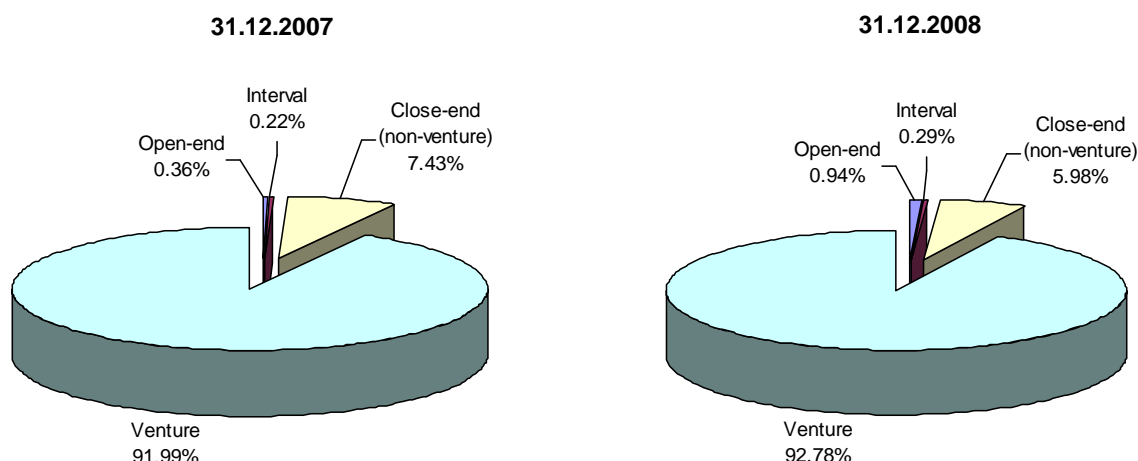


Chart 6. Distribution of CII asset value by the types of funds at 2008 beginning and end

5. Non-venture CII Net Asset Value

As non-venture funds attract moneys publicly, they require a separate review, irrespective of the fact that their asset value is not significant compared to the venture funds².

¹ Based on the State Statistics Committee data.

² Based on the NBU data.

2008 became one of the hardest years for non-venture CII both from the viewpoint of moneys' attraction (Table 5), and from the viewpoint of earning a positive return on their investments (Chart 9).

Table 5

Non-venture CII net asset value dynamics by the types of funds in 2008

Funds	NAV as of 31.12.2007, UAH M	Share in aggregate NAV as of 31.12.2007	NAV as of 31.12.2008, UAH M	Share in aggregate NAV as of 31.12.2008	Annual growth
Open-end	463,18	14,85%	517,35	12,76%	11,70%
Interval	241,82	7,75%	182,09	4,49%	-24,70%
Close-end (non-venture)	2 414,90	77,40%	3 354,59	82,75%	38,91%
Total	3 119,90	100,00%	4 054,03	100,00%	29,94%

An aggregate value of the net assets of non-venture CII in 2008 grew by 29,94% and amounted to UAH 4 054,03M. That growth occurred primarily due to an increase in the NAV of close-end (non-venture) (+38,91%) and open-end CII (+11,70%). Just as last year, the share of close-end funds within an aggregate NAV of non-venture funds is the greatest – 82,75%, annual increase by 0,07 percentage points. Open-end and interval funds decreased their shares within an aggregate NAV by 0,14 percentage points and 0,42 percentage points accordingly.

6. CII Asset Structure

It is expedient to analyze CII asset structure by the types of funds, as specific restrictions on investments are established for the assets of each of them. As it can be seen from Chart 7, the most liquid are the assets of interval CII, 32,08% of which constitute moneys and bank deposits, 3,26% - bonds of internal state loan (hereinafter - OVDP), and 7,09% - municipal bonds. The liquidity of open-end CII is somewhat lower; and their respective asset structure is as follows: moneys - 12,64%, OVDP – 2,67%, and municipal bonds – 3,81%.

The key assets of both types of funds are shares and bonds of Ukrainian enterprises, which comprise, accordingly, 28,26% and 19,57% in case of interval CII, and 9,81% and 35,31% in case of open-end CII.

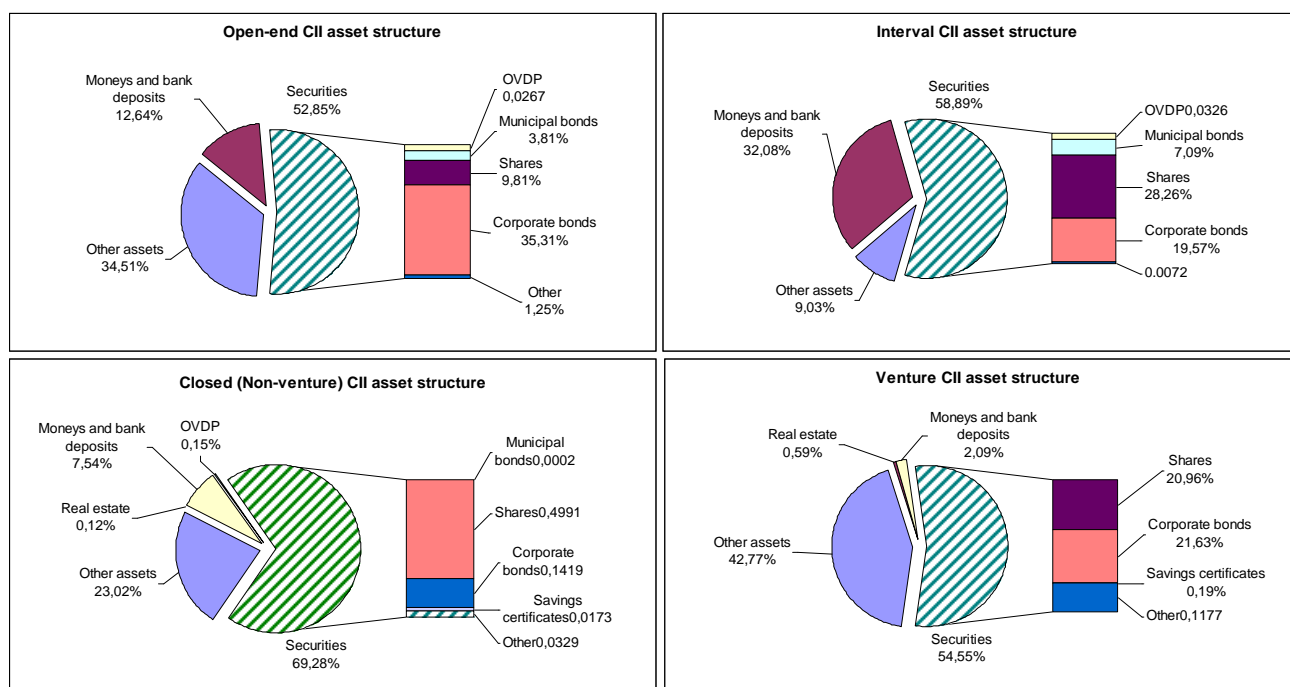


Chart 7. CII asset structure by the types of funds, as of 31.12.2008

Close-end non-venture CII, which attract moneys for a lengthy time period, have considerably lower requirements to their assets' liquidity. Their asset structure is as follows: 49,91% of shares, 14,19% of bonds, and 23,02% of «other assets» whose liquidity is usually low. Moneys and bank deposits comprise only 7,54% of close-end non-venture funds' assets.

Due to a specific nature of venture CIIs' activities, their asset structure is less clearly expressed in securities. 42,77% of the portfolio consists of "other assets" (corporate rights, loans, receivables and other assets). Furthermore, the securities portfolio of venture funds, which includes 54,55% of assets, contains 11,77% of «other» securities.

Let us consider the structure of a combined CII securities portfolio by the types of funds (Table 6 and Chart 8). The transparency and liquidity of the portfolio may be assessed by the share of securities whose industry belonging is not defined (yellow segments, Chart 8). By this criterion, it is the combined portfolio of interval CII that took the first place (10,75%), open-end funds took the second place (43,91%), the third place went to close-end non-venture CII (46,46%), and the last one – to venture CII (71,24%).

Table 6

Structure of CII securities portfolio by investment areas and types of funds as of 31.12.2008³

Area	Open-end	Interval	Close-end	Venture	Total
Finance	20,34 %	23,53 %	6,54 %	4,04 %	14,28 %
Technologies	0,00 %	0,00 %	0,00 %	0,01 %	0,02 %
Telecom	0,09 %	0,27 %	0,05 %	0,00 %	0,02 %
Consumer goods	8,97 %	10,06 %	10,39 %	5,86 %	20,09 %
Consumer services	7,75 %	6,75 %	4,49 %	3,01 %	10,22 %
Raw materials	7,46 %	17,47 %	4,03 %	3,88 %	12,78 %
Industry	3,23 %	12,49 %	14,41 %	5,60 %	20,16 %
Oil and gas	0,41 %	2,53 %	0,43 %	0,01 %	0,18 %
Health care	0,64 %	1,29 %	0,11 %	0,35 %	1,08 %
Utilities	7,21 %	11,88 %	5,61 %	0,92 %	4,40 %
Mixed	0,00 %	2,97 %	7,48 %	5,08 %	16,78 %
<i>Not defined</i>	<i>43,91 %</i>	<i>10,75 %</i>	<i>46,46 %</i>	<i>71,24 %</i>	<i>0,00 %</i>
Total	100,00 %	100,00 %	100,00 %	100,00 %	100,00 %

Judging by their respective shares in the combined securities portfolio of non-venture funds, these are the securities of enterprises working in finance, consumer goods and consumer services – for open-end CII; in finance, raw materials and industry – for interval ones, and in industry, consumer goods and mixed area – for close-end CII (according to PFTS classification) that are the most popular ones.

³ According to PFTS industry classification.

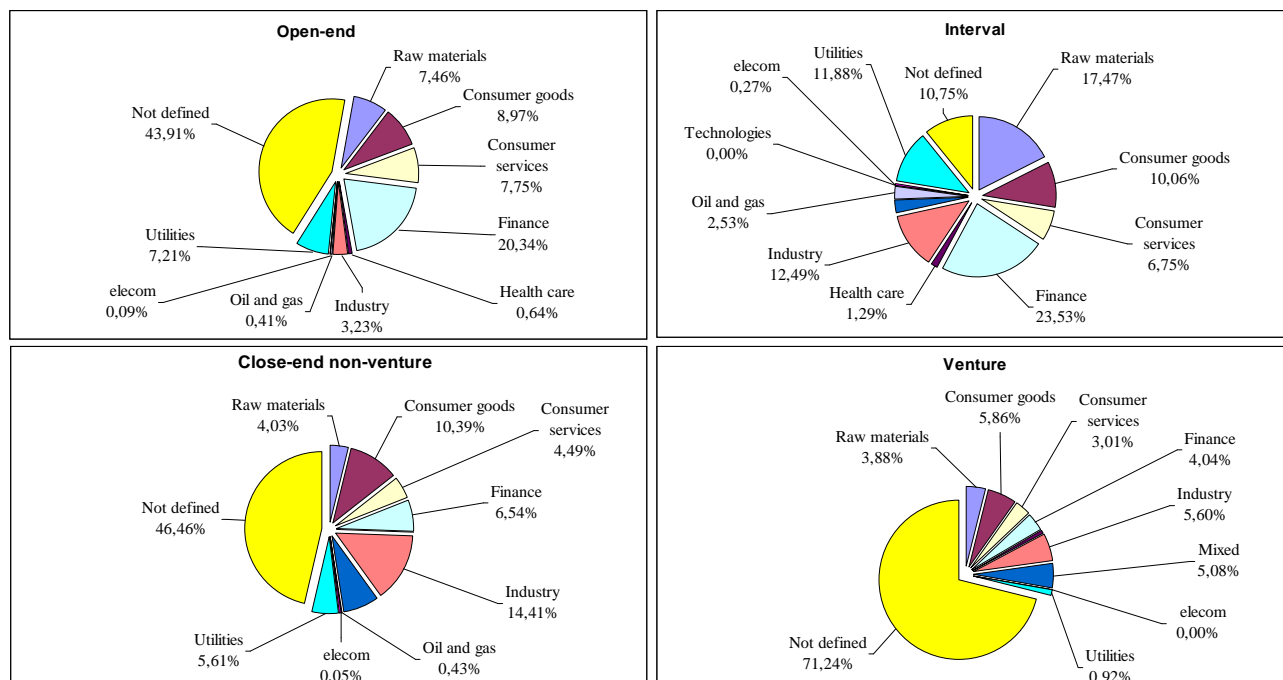


Chart 8. CII securities portfolio structure, by investment areas and types of funds, as of 31.12.2008

Based on presence in the portfolios of different CIIs, blue chips of the Ukrainian stock market and PFTS index components remain the most popular companies (Table 7).

Table 7
Most popular securities - by presence within CII portfolios as of 31.12.2008

	Security type	Category	Issuer	Number of CII that hold respective securities in their portfolios
1	Shares	Common registered	<i>Azovstal Metallurgical Works</i>	103
2	Shares	Common registered	<i>Tsentrenergo</i>	93
3	Shares	Common registered	<i>Ukrnafta</i>	89
4	Shares	Common registered	<i>Yenakyivsky Metallurgical Works</i>	88
5	Shares	Common registered	<i>Motor Sich</i>	83
6	Shares	Common registered	<i>Azov</i>	76
7	Shares	Common registered	<i>Alchevsky Metallurgical Works</i>	76
8	Shares	Common registered	<i>JSCB Ukrsootsbank</i>	75
9	Shares	Common registered	<i>Zakhidenergo</i>	70
10	Shares	Common registered	<i>Lutsky Automobile Works</i>	68

The leaders among securities by an aggregate value within CII portfolios at 2008 end were the shares of *Premier Palace Hotel* (Ukraine Hotel) and the bonds of *A.B.C. LLC* (Table 8), which were not included into Table 7. That is due to a considerable share of venture funds' assets in the CII market, where one or two such funds own considerable blocks of those securities.

Table 8

Most popular securities - by aggregate value within CII portfolios as of 31.12.2008

	Security type	Category	Issuer	Value of securities purchased by CII, UAH
1	Shares	Common registered	<i>Premier Palace Hotel</i>	738 665 813,02
2	Corporate bonds	Non-interest bearing, registered	<i>A.B.C. LLC</i>	632 366 611,50
3	Shares	Common registered	<i>LIKO-HOLDING</i> Territorial Inter-Farm Association	587 561 811,46
4	Corporate bonds	Interest bearing, registered	<i>Vyrobnychy Viector</i>	504 119 863,31
5	Shares	Common registered	Zaporizhya Metallurgical Works <i>Zaporizhstal</i> (named after S.Orzhonikidze)	478 328 993,03
6	Shares	Common registered	<i>OFAL</i> Joint Construction Company	438 608 537,75
7	Shares	Common registered	<i>JSCB Forum</i>	381 247 903,20
8	Shares	Common registered	<i>Ukrriichflot</i>	377 471 393,76
9	Shares	Common registered	<i>Sumy Machine-Building Research and Production Corporation</i> named after <i>M.V. Frunze</i>	366 549 302,52
10	Shares	Common registered	<i>OJSC Avangardinvest</i>	346 720 801,44

By an aggregate value within CII portfolios, shares come first, company bonds – second, and promissory notes – third.

Table 9

Securities' types by an aggregate value in CII portfolios as of 31.12.2008

Security types	Value of securities purchased by CII, UAH	Share of the most popular securities
Shares	14 950 750 770,26	40,86%
Corporate bonds	13 605 130 312,56	37,19%
Promissory notes	7 243 288 633,96	19,80%
Mortgage securities	456 349 211,29	1,25%
Savings certificates	224 022 500,00	0,61%
Government bonds, internal	47 562 941,15	0,13%
Municipal bonds	43 807 747,40	0,12%
FON ⁴ certificates	7 887 500,56	0,02%
Mortgage bonds	4 437 135,00	0,01%
Derivative instruments	3 544 609,43	0,01%
<i>Total</i>	<i>36 586 781 361,61</i>	<i>100,00%</i>

⁴ Translator's note. FON – Property funds

7. CII Return

In the conditions of the national stock market decline, CII returns are conditioned by their above-outlined asset structure. As it can be seen from Chart 9, the highest average return in 2008 was earned by venture CII (22,98%). However, a broad range of such funds' return should be noted. For instance, the lowest return demonstrated was -96,6%, and the highest – +296,69%.

Interval funds earned the worst return (-35,15%), and open-end funds' return was no better than that of the interval CII (-30,33%).

As to other investment tools, a growth in the price of gold should be noted (+60,11%) due to an increase of currency risks and a loss of investors' trust to securities. Return on deposits in gold also increased (+68,12%, taking into account an increase in the price of gold). In the conditions of decline in all markets, annual increase in the price of real estate was not significant (+4,07%). Together with the return earned on deposits in the national currency (+16,71%), it did not exceed the inflation rate (22,3%).

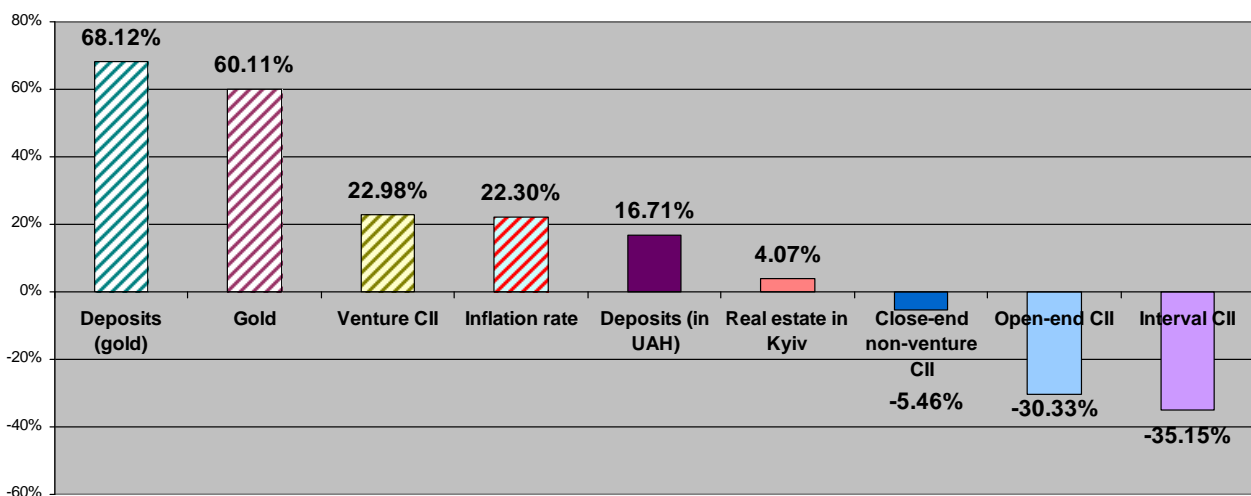


Chart 9. Average return - different types of funds, gold, deposits and real estate in 2008⁵

8. CII Cost Structure

An important indicator of investment funds' operations both from the viewpoint of a separate company's competitiveness, and of the CII market on the whole, is the share of costs being paid at the expense of funds' assets. In 2008, the share of these costs was the greatest in close-end (non-venture) CII (1,45%), and the smallest – in venture CII (0,06%) (Table 9). AMC's fee constitutes the major stake of these costs: in interval funds – 73,27%, in close-end (non-venture) - 67,18%, in open-end funds – 64,29%, in venture funds – 63,18%. Open-end funds have the greatest share of costs relating to the securities traders' fee (29,53%), which can be explained by the requirements to the funds' portfolio diversification and a greater quantity of exchange transactions.

⁵ The return earned by deposits in gold is calculated based on deposit rate of 5% per year. The inflation rate provided is based on the State Statistics Committee data. The return on real estate is calculated based on Kyiv real estate value index (Source: <http://www.domik.net>).

Table 10

CII cost structure by the types of funds as of 31.12.2008

	Share	AMC's fee	Custodian's fee	Registrar's fee	Auditor's fee	Appraiser's fee	Securities trader's (agent's) fee	Total fee costs
Open-end	within costs	64.29%	1.60%	0.00%	0.12%	0.00%	29.53%	95.55%
	within NAV	0.19%	0.00%	0.00%	0.00%	0.00%	0.09%	0.29%
Interval	within costs	73.27%	2.90%	0.20%	0.59%	0.00%	0.31%	77.28%
	within NAV	0.60%	0.02%	0.00%	0.00%	0.00%	0.00%	0.63%
Close-end (non-venture)	within costs	67.18%	1.72%	0.84%	0.53%	0.14%	6.37%	76.53%
	within NAV	1.03%	0.03%	0.01%	0.01%	0.00%	0.10%	1.18%
Venture	within costs	61.18%	1.43%	0.38%	0.92%	0.33%	7.42%	71.67%
	within NAV	0.04%	0.00%	0.00%	0.00%	0.00%	0.00%	0.05%
	Share	Registration services	Manufacturing of securities' blank forms	Settlement and cash services of bank	Notarial services	Depository's services	Payments for mandatory disclosure publications	Information services
Open-end	within costs	0.13%	0.00%	0.48%	0.26%	1.64%	1.24%	0.01%
	within NAV	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Interval	within costs	0.01%	0.00%	0.29%	0.26%	2.19%	1.26%	0.09%
	within NAV	0.00%	0.00%	0.00%	0.00%	0.02%	0.01%	0.00%
Close-end (non-venture)	within costs	1.34%	0.02%	0.69%	0.36%	2.01%	1.45%	0.66%
	within NAV	0.02%	0.00%	0.01%	0.01%	0.03%	0.02%	0.01%
Venture	within costs	0.24%	0.01%	0.98%	7.47%	0.83%	0.47%	11.65%
	within NAV	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%
	Share	Rent	Supervisory board members' fee	Charge on payroll of supervisory board members	Avertising services relating to securities' placement	Costs relating to servicing of securities' circulation and participants (shareholders)	Total operating costs	Total costs
Open-end	within costs	0.00%	0.00%	0.00%	0.22%	0.48%	4.45%	100.00%
	within NAV	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.30%
Interval	within costs	0.59%	0.00%	0.00%	18.03%	0.00%	22.72%	100.00%
	within NAV	0.00%	0.00%	0.00%	0.15%	0.00%	0.19%	0.82%
Close-end (non-venture)	within costs	1.55%	11.85%	0.33%	1.07%	2.67%	23.93%	100.00%
	within NAV	0.02%	0.18%	0.01%	0.02%	0.04%	0.37%	1.54%
Venture	within costs	2.27%	2.65%	0.62%	0.01%	1.14%	28.33%	100.00%
	within NAV	0.00%	0.00%	0.00%	0.00%	0.00%	0.02%	0.06%

Compared to 2007, all types of CII increased the share of costs within NAV. In open-end funds it increased by 2,23 percentage points, in interval funds – by 0,25, in close-end non-venture funds - by 1,09, and in venture funds – by 0,04.

9. Distribution of Non-venture CII Net Assets by the Types of Owners

As of 31.12.2008, the key investors of non-venture CII were legal entities-residents (83,60% of the aggregate NAV), who made most of their investments into close-end CII (96,27% of close-end funds' NAV). The second place went to the natural persons – residents, whose investments (UAH 407,95M) comprised 8,63% of the aggregate NAV of non-venture CII. The greatest share of such investments (92,07%) was found in interval funds. In the third place were legal entities-non-residents (7,70% of the aggregate NAV of non-venture CII) that invested mainly into open-end CII (60,51% of those funds' NAV).

Table 10

Non-venture CII NAV distribution by the types of investors as of 31.12.2008, % of NAV

Funds	Legal entities-residents	Legal entities non-residents	Natural persons - residents	Natural persons non-residents
Open-end	13,32%	60,51%	25,57%	0,60%
Interval	7,37%	0,55%	92,07%	0,01%
Close-end (non-venture)	96,27%	1,24%	2,48%	0,00%
Total	83,60%	7,70%	8,63%	0,07%

10. AMC Owners' Equity

During 2008, AMC owners' equity grew by 44,29% and amounted to UAH 3 222,83M. Correlation of the asset value managed by AMC (UAH 63 265M) and AMC owners' equity equals to 19,6, which meets the SSMSC standards (<50) and insignificantly exceeds the indicator as of 31.12.2007 (18,3).

Unpaid capital in the liabilities and owners' equity section of AMC balance sheet reflects the founders' contributions payable to the statutory fund. Correlation of unpaid AMC capital (UAH 267,41M) to announced AMC capital (UAH 3404,10M) equals to 8,3 %, which is less than year 2007 indicator (13,85%) and allows to forecast a further growth of AMC liabilities and owners' equity.

11. NPF Operations

During 2008, NPF assets in AMC management grew by 85,13% - to UAH 449,4M, and the number of NPF that made contracts with AMC went up by 17,28% and amounted to 95 funds (Table 12). Just as last year, the main share of the NPF market by the number of funds (72), as well as by asset value (UAH 314,13M or 69,89%), was constituted by open-end NPF (Chart 10). Remaining market share was nearly equally divided between corporate and professional funds.

Table 12

NPF assets in AMC management as of 31.12.2008, by the type of NPF

NPF type	Number	Assets, UAH	Share
Open-end	72	314 125 039,80	69,89%
Corporate	11	70 152 479,58	15,61%
Professional	9	65 155 411,59	14,50%
<i>Total</i>	<i>92</i>	<i>449 432 930,97</i>	<i>100,00%</i>

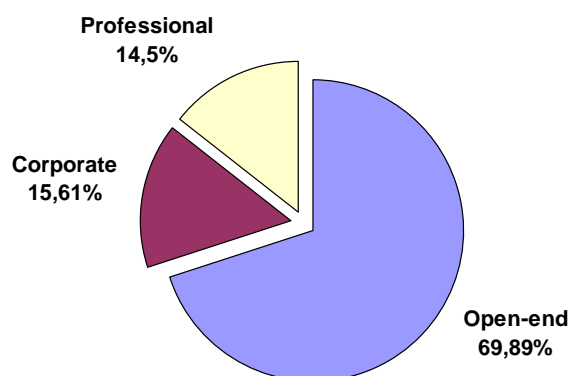


Chart 10. Share of assets of different NPF types within the aggregate value of NPF assets in AMC management, as of 31.12.2008

Just as during the previous year, securities comprised the greatest share of NPF assets (51,3%), moneys and bank deposits followed (32,4%) (Chart 11). However, compared to year 2007, the share of securities went up by 0,04 percentage points, and of moneys – went down by 0,25 percentage points.

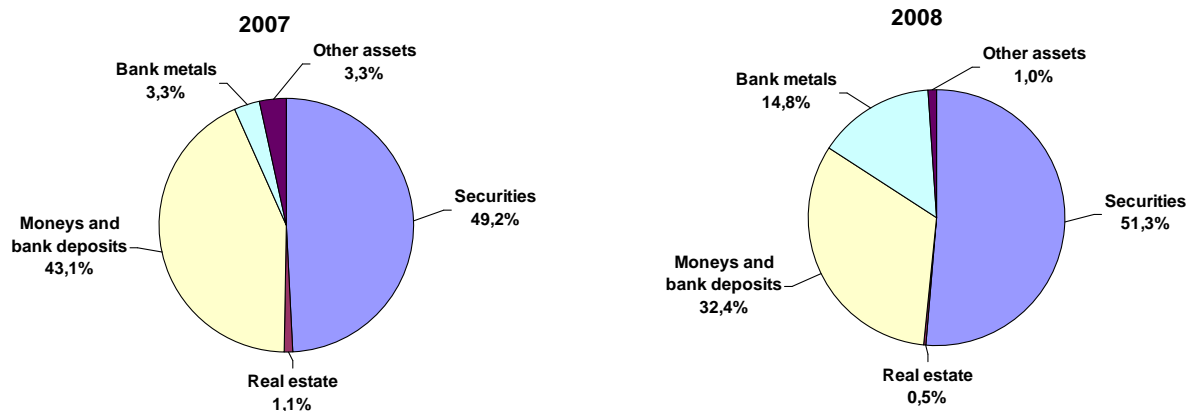


Chart 11. NPF asset structure in 2007-2008

12. Resume

Last quarters of 2008 were the hardest ones for collective investment institutions, in the first turn, due to the beginning of financial crisis in Ukraine, which caused a downfall of investors' trust in the national financial institutions. An increase in the number of asset management companies occurred due to a lengthy period necessary for their state registration.

In 2009, the number of companies and funds may decline, however, we should not reject another scenario of the course of events. Close-end funds in the form of private equity funds and venture funds will be developing more actively, which will allow the collective investments market to increase its share in the financial services market. Such course of events is likely as a result of passage at the start of year 2009 of the amendments to the Law of Ukraine "On Collective Investment Institutions (Unit and Corporate Investment Funds)".

In view of the fact, that in Ukraine, along with the economic crisis, political crisis continues, stabilization of the economy could be expected the earliest in the second half of 2009. Stabilization of the situation in the country shall allow to increase the volume of foreign investments and promote an increase of international capital flow to the collective investments market.

As world experience demonstrates, in emerging economies, in case of a crisis, the downfall in the stock and other markets happens faster than in developing economies, although the former cope with the crisis faster than the latter.