

# Analytical Review of the Collective Investments Market In The Third Quarter 2008

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## **1. The Ukrainian Stock Market**

The fourth quarter 2008 was marked by a further deepening of the financial crisis that continued affecting the global economy. Whilst during the second and third quarter those were financial institutions and their clients that were affected most by the crisis, in the fourth quarter it was already affecting prevailing majority of the population.

Introduction of temporary NBU administrations to a number of Ukrainian banks and freezing of moneys in clients' accounts for six month term significantly undermined the trust to the financial system. Considerable fluctuations of the exchange rate of US dollar to Hryvnia resulted in further deepening of the banking sector crisis. Citizens and business entities started a mass withdrawal of their moneys from financial institutions and accumulation of those moneys outside of the financial system. Impairment of macroeconomic indexes followed as a consequence.

Similar tendency was observed in many countries around the world and, as a result, brought to a decline of mature markets' indexes (Table 1). At the same time, a downfall of investors' trust to the stock markets caused a significant withdrawal of capital from the emerging markets, in particular, from Ukraine. During the fourth quarter 2008, PFTS index lost 18,42% and at quarter end reached 301,42 points.

*Table 1*

*National markets' stock indexes in 2008*

<b>Indexes</b>	<b>As of 01.01.2008</b>	<b>As of 01.10.2008</b>	<b>As of 31.12.2008</b>	<b>Rate of return for the fourth quarter 2008</b>	<b>Rate of return since 2008 beginning</b>
PFTS (Ukraine)	1174,02	369,47	301,42	-18,42%	-74,33%
RTS (Russia)	3158,76	1848,66	631,89	-65,82%	-80,00%
HANG SENG (China)	27812,65	17880,68	14235,5	-20,39%	-48,82%
WSE WIG (Poland)	55648,53	37367,32	27228,641	-27,13%	-51,07%
DAX (Germany)	8038,6	5831,02	4810,2	-17,51%	-40,16%
S&P 500 (USA)	1468,36	1166,36	903,25	-22,56%	-38,49%
FTSE 100 (Great Britain)	6456,9	4902,45	4434,17	-9,55%	-31,33%
NIKKEI 225 (Japan)	15307,78	11259,86	8859,56	-21,32%	-42,12%

The situation in the stock market, which is the key place of investments of non-venture CII, conditioned a further decline in the collective investments market both by the volumes of moneys under AMC management and the profitability of the CII under their management.

## 2. Number of AMC and CII

According to UAIB data, in the fourth quarter 2008, five new asset management companies emerged (in the third quarter – ten companies), and as of 31.12.2008 their number reached 409, whilst the number of registered CII reached 1244 funds. An average number of CIIs per one AMC grew by 0,1 and comprised three funds (Chart 1).

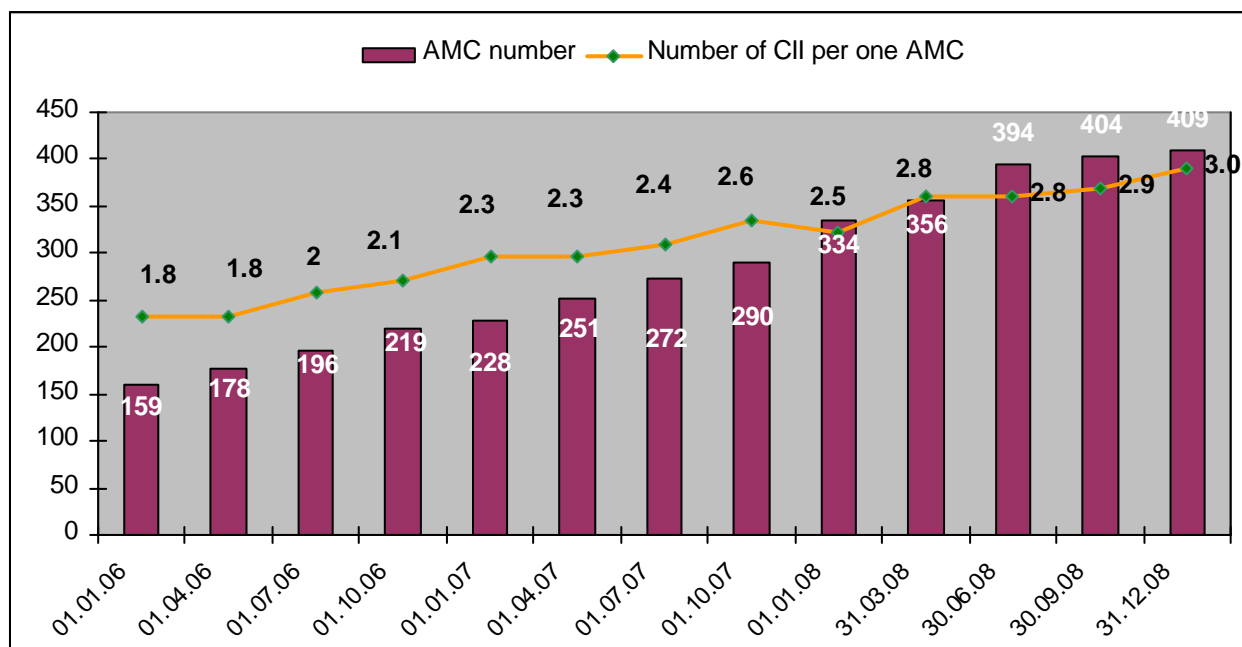


Chart 1. AMC and CII number dynamics per on AMC since 01.01.2007 through 31.12.2008

The number of CII that reached compliance with the standards as of the end of the fourth quarter 2008, reached 796 funds (Table 2). The growth for the quarter comprised 2,1%, and since year beginning – 38%. The growth was mainly due to an increase in the number of venture funds that reached compliance with the standards (+70 over quarter, +213 since year beginning), and at quarter end there were already 636 venture CII (79,9% of the total number).

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Dynamics of the number of CII that reached compliance with the standards, by the types of CII in 2008

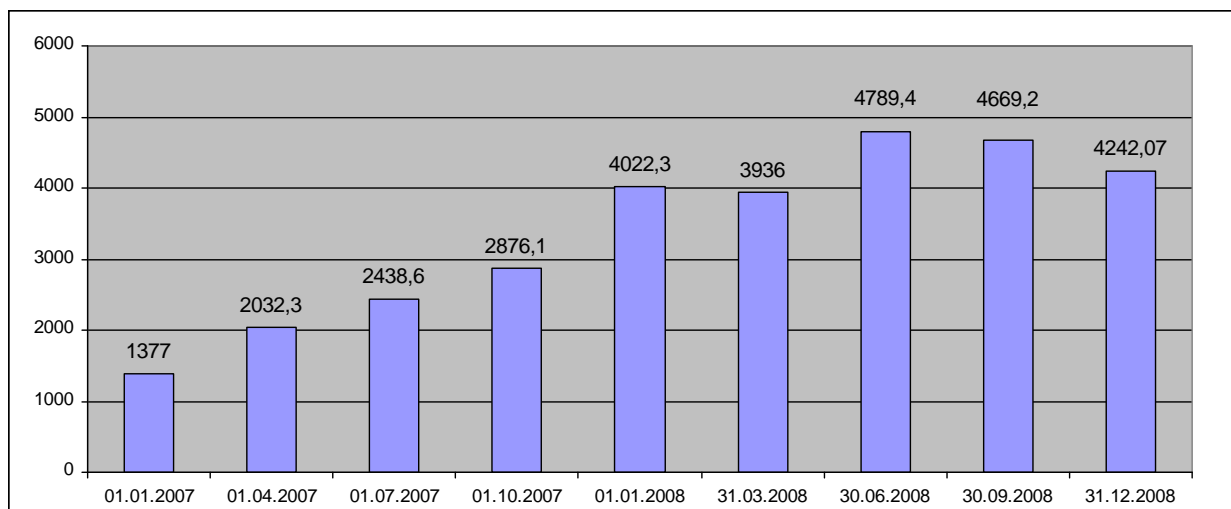
Period	Total	PIF					CIF		
		Open-end	Interval	Close-end diversified	Close-end non-diversified	Venture	Interval	Close-end non-diversified	Venture
01.01.2008	577	14	25	3	15	423		63	34
30.09.2008	780	24	34	4	19	566		90	43
31.12.2008	796	32	41	4	22	636	1	107	45
Growth over the fourth quarter	2,1%	33,3%	20,6%	0,0%	15,8%	12,4%		18,9%	4,7%
Growth since year beginning	38,0%	128,6%	64,0%	33,3%	46,7%	50,4%		69,8%	32,4%

A growing number of funds that reached compliance with the standards in the conditions of financial crisis could be explained by a considerable time lag between the decision-making on establishing a fund and reaching the standards by that fund. Slowing down of CII number growth pace is likely to be expected in the second and third quarters of 2009.



#### **4. Non-venture CII Asset Value**

In the midst of stock market decline, the asset value of non-venture funds somewhat decreased in the fourth quarter and at quarter end comprised UAH 4242,07 M (-9,15% compared to previous quarter, +5,46% since year beginning) (Chart 4). If in the third quarter the drop of asset value in non-venture CII portfolios was offset by new close-end funds with significant volumes of assets under management reaching compliance with the standards, in the fourth one the new funds' asset value was not enough for that. Provided current stock market tendencies in the stock market are preserved in the next quarter, we probably should expect further decline in the asset value of non-venture CII.



*Chart 4. Non-venture CII asset value dynamics in 2007-2008, UAH M*

In the fourth quarter, non-venture funds of all types were losing in asset value. Compared to the previous quarter, a considerable acceleration in the rate of value decrease of open-end CII, which decreased by 52,03% (-63,72% since year beginning) and at quarter end comprised UAH 204,92 M (Table 3), was observed.

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

Funds	AV as of 01.01.2008, UAH M	AV as of 01.10.2008, UAH M	AV as of 31.12.2008, UAH M	Growth for the fourth quarter	Growth since year beginning
Open-end	564,8	427,2	204,92	-52,03%	-63,72%
Interval	294,1	258	213,13	-17,39%	-27,53%
Close-end	3163,4	3984	3817,62	-4,18%	20,68%
Total	4022,3	4669,2	4242,07	-9,15%	5,46%

Due to the unevenness of non-venture CII asset value changes by the types of funds, their proportion by asset value changed (Chart 5). For instance, open-end funds' share comprises 5% against 9% of the preceding quarter. Just as previously, the greatest share – 90% (+5% compared to the third quarter) – was comprised by close-end funds.

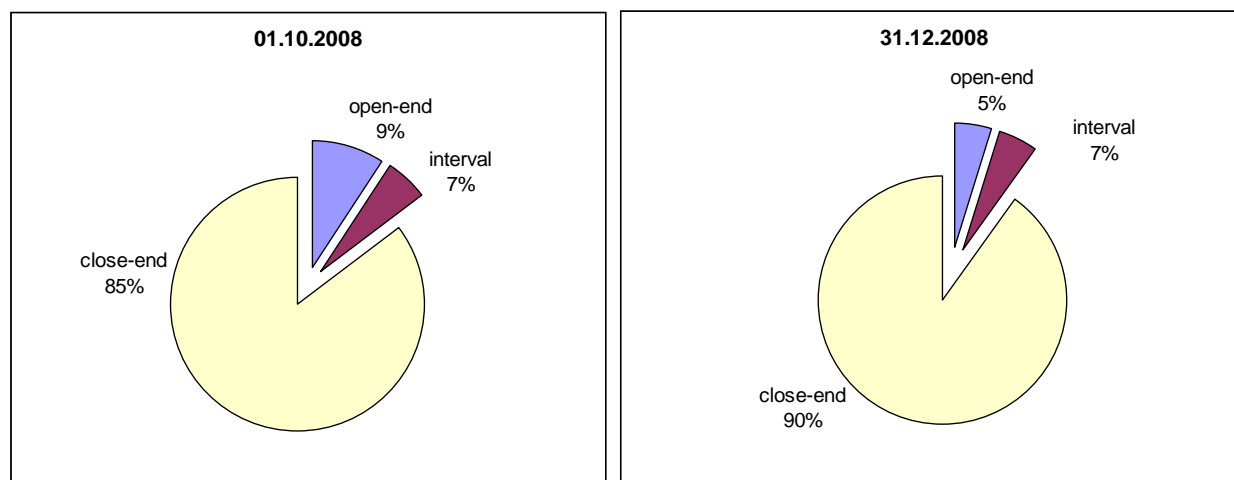


Chart. 5. Non-venture CII asset value structure, by the types of funds in 2008

Total net asset value of non-venture funds also declined: from UAH 4153,8M at quarter beginning to UAH 3807,5M (-8,34%) – at quarter end (Table 4). That happened due to open-end (-51,74%) and interval (-17,16%) CII, whilst the NAV of close-end declined not that significantly – by 2,59%.

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

Funds	NAV as of 01.01.2008, UAH M	NAV as of 01.10.2008, UAH M	NAV as of 31.12.2008, UAH M	Growth for the fourth quarter	Growth since year beginning
Open-end	555,4	423,6	204,4	-51,74%	-63,19%
Interval	283,4	254	210,4	-17,16%	-25,75%
Close-end	2781,3	3476,2	3386,3	-2,59%	21,75%
Total	3620,1	4153,8	3807,5	-8,34%	5,18%

## **5. Non-venture CII Asset Structure**

Just as in the previous periods, the asset structure of open-end and interval funds was fairly similar. The stake of cash and bank deposits within an aggregate portfolio of those types of funds comprised 33,13% and 33,34% accordingly, and of securities – 64,38% and 60,21%. The structure of an aggregate portfolio of close-end CII was less liquid. The stake of cash and bank deposits comprised 7,47%, and the stake of securities – 69,32%.

The key changes within the structure of non-venture CII assets over the quarter consisted in a decrease of the stake of shares and an increase of the stake of bonds. The stake of shares went down by 0,48 percentage points in open-end funds and by 0,36 in interval funds, whilst the stake of bonds went up by 2,14 in open-end funds and by 3,46 in interval funds. Such changes could, on one hand, be explained by depreciation of shares and, on the other – by the attempts of managers to get rid of such assets in meeting the requirements to portfolio diversification via purchases of bonds.

The said tendency was also observed in close-end funds, the stake of shares in the portfolios of which decreased by 0,46 percentage points only. However, a 0,02 percentage points decrease of the stake of bonds was also observed in close-end funds.

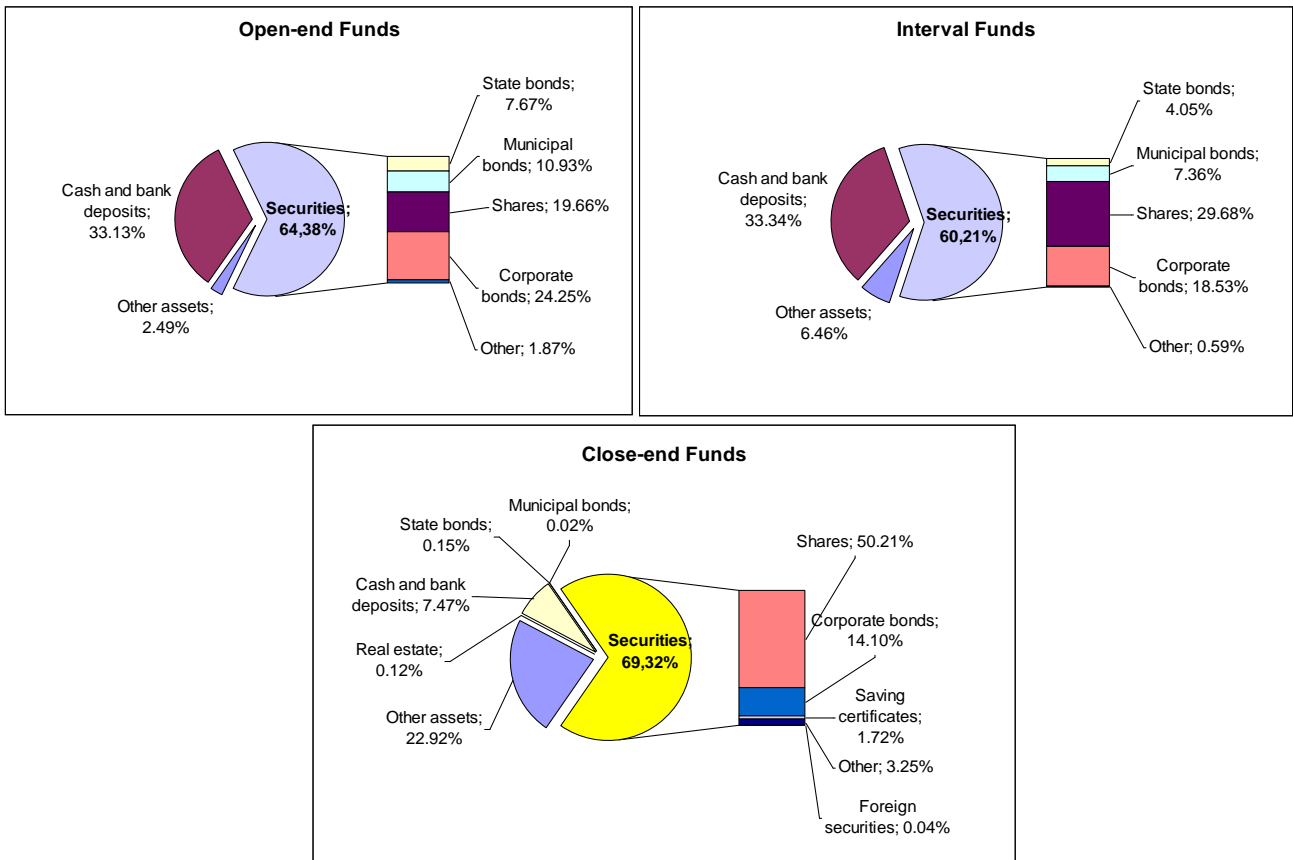


Chart 6. Non-venture CII asset structure in different types of funds as of 31.12.2008

The structure of consolidated CII securities portfolio by investment industries. As it can be seen from Chart 7, as of 31.12.2008, the key sectors into which the funds of non-venture CII had been invested were industry (24,46% +0,03 percentage points) and consumer goods (18,10% -0,11 percentage points). Compared to quarter beginning, the greatest decrease was observed in raw materials sector (9,13%, -0,29 percentage points), which was probably due to a drastic fall in the demand for raw materials in developed markets.

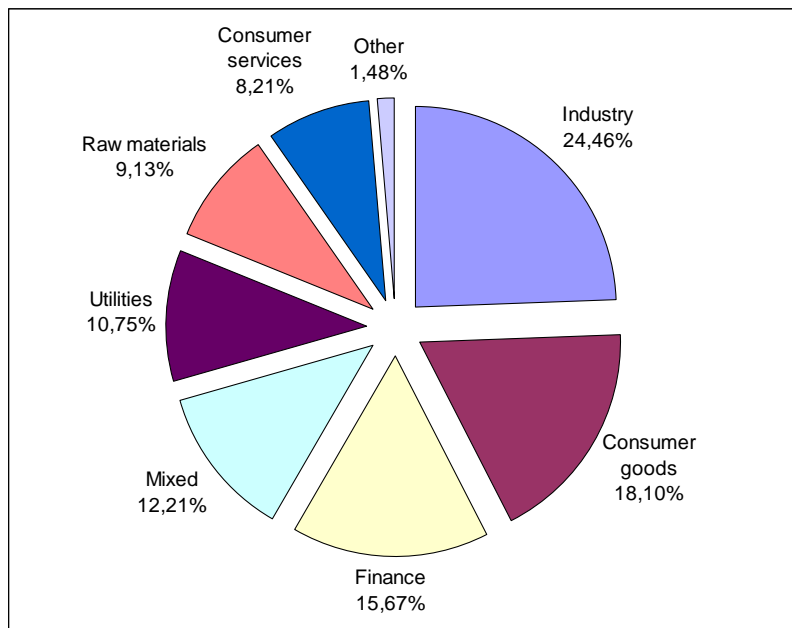


Chart 7. Consolidated non-venture CII securities portfolio structure, by investment industries, as of 31.12.2008<sup>1</sup>

<sup>1</sup> According to PFTS industry classification.

Ukrainian stock market blue chips remained most popular by the presence in non-venture CII portfolios. According to December 2008 PFTS equity securities rating, the first six places, with exception of OJSC *Dniproenergo* (DNEN), were taken by the securities, which were most popular ones in the portfolios of non-venture CII (Table 5). Just as previously, *Azovstal Metallurgical Works* (AZST), whose shares were present in the portfolios of 85 funds (90 at quarter beginning), became the leader.

Compared to quarter beginning<sup>2</sup>, the bonds of the Ministry of Finance of Ukraine entered the top ten, and shares of *Poltava Ore Enrichment Works* (PGZK) and *Lutsk Automobile Plant* (LUAZ) left the top ten.

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*Most popular securities – by presence within non-venture CII portfolios as of 31.12.2008*

	Security type	Category	Issuer	Number of CII that have respective securities in their portfolios
1	Shares	Common registered	<i>Azovstal Metallurgical Works</i>	85
2	Shares	Common registered	State Energy Generating Company <i>Tsentrenergo</i>	76
3	Shares	Common registered	<i>Ukrnafta</i>	68
4	Shares	Common registered	<i>MOTOR SICH</i>	68
5	Shares	Common registered	OJSC <i>Mariupol Heavy Engineering Works AZOV</i>	67
6	Shares	Common registered	<i>Yenakyivsky Metallurgical Works</i>	66
7	Government bonds	Interest-bearing	Ministry of Finance of Ukraine	61
8	Shares	Common registered	JSCB of Social Development <i>Ukrsotsbank</i>	60
9	Shares	Common registered	<i>Zakhidenergo</i>	55
10	Shares	Common registered	<i>Alchevsky Metallurgy Works</i>	54

Just as at the start of the quarter, the leaders by an aggregate value in CII portfolios as of 31.12.2008 are assets not represented in Table 5. In other words, the greatest by volume within CII assets are securities purchased in large blocks by a small number of CII, in particular, by one CII. Compared to the preceding quarter, an aggregate value of securities included into the top ten increased by UAH 336,91M – from UAH 640,73M to UAH 977,64M.

Shares of seven issuers became newcomers in this top-ten. The first trio by value: OJSC *Novienergo* (1<sup>st</sup> place, UAH 215,44M), United Construction Company *OFAL* (2<sup>nd</sup> place, UAH 101,2M) and OJSC *Invest Capital Real Estate* (3<sup>rd</sup> place, UAH 91,33M) (Table 6).

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*Most popular securities – by aggregate value in CII portfolios as of 30.09.2008*

	Security type	Category	Issuer	Value of securities purchased by CII, UAH
1	Shares	Common registered	OJSC <i>Novienergo</i>	215 444 071,58
2	Shares	Common registered	United Construction Company <i>OFAL</i>	101 200 000,00
3	Shares	Common registered	OJSC <i>Invest Capital Real Estate</i>	91 328 395,29
4	Shares	Common registered	OJSC <i>Ukrainian Industrial Investments</i>	85 201 132,50
5	Corporate bonds	Non-interest bearing, registered	<i>Vyrobnychy Viector</i>	84 624 529,50
6	Shares	Common registered	OJSC <i>AvangardInvest</i>	82 989 412,00
7	Shares	Common registered	<i>Derevoobrobka</i>	80 395 890,00
8	Shares	Common registered	OJSC <i>Prometei – Telecom</i>	79 218 269,62
9	Shares	Common registered	<i>Leninska Kuznia Plant</i>	78 898 095,09
10	Shares	Common registered	<i>Darnytsky Reinforced Concrete Constructions Plant (ZBK)</i>	78 339 233,60

<sup>2</sup> See: «Analytical Review of the Collective Investments Market in the Third Quarter 2008», [http://www.uaib.com.ua/files/articles/974/73\\_4.pdf](http://www.uaib.com.ua/files/articles/974/73_4.pdf)

## **6. Non-venture CII Certificates' Ownership Structure**

In the fourth quarter of 2008, the share of the main investors of non-venture CII – legal entities–residents – continued to grow. As of 31.12.2008, it comprised 87,84% of an aggregate NAV (59,66% – at quarter beginning). Such growth primarily occurred due to an increase of those investors' moneys in close-end CII from 91,71% of NAV at quarter beginning to 96,76% – at the end. That increase could in the first turn be explained by new close-end funds, with a considerable NAV and legal entities – residents' share within investors, entering the market.

The second place goes to natural persons – residents, whose investments dropped from 14,40% of an aggregate non-venture CIIs' NAV at quarter beginning to 8,25% – at the end. The greatest share of such investments (93,79%) is found in interval funds, just as in the third quarter. The third place is held by legal entities – non-residents (3,88% of an aggregate non-venture CIIs' NAV (7,59% – at quarter beginning) that invested mainly into open-end CII (68,78% of those funds' NAV).

*able 7*

*Non-venture CII certificates' ownership structure as of 31.12.2008, % of NAV*

<b>Funds</b>	<b>Legal entities- residents</b>	<b>Legal entities non-residents</b>	<b>Natural persons - residents</b>	<b>Natural persons non-residents</b>
Open-end	1,37%	68,78%	29,10%	0,76%
Interval	7,25%	0,63%	92,12%	0,00%
Close-end	96,76%	0,83%	2,41%	0,00%
Total	87,84%	3,88%	8,25%	0,04%

## **7. Resume**

The fourth quarter 2008 was characterized by continuing and deepening financial crisis, which was also affecting economic processes. Unlike in the previous quarter, the majority of experts agree that the national stock market decline may continue.

The collective investments market also faced losses. The volume of investments into the market went down, which demonstrates inefficiency of anti-crisis measures taken by the governmental authorities.

The financial crisis continues destabilization of the stock market and the collective investments market. Such processes in the national economy may result in a decrease of the trading volumes in the stock market and of the investments into the collective investments market.

Stock market growth will be possible if the financial sector of the Ukrainian economy stabilizes, though political stability and effective action on the part of government authorities are necessary to enable that.