

Analytical Review of the Collective Investments Market In The First Quarter 2009

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1. Ukrainian Stock Market

The first quarter 2009 was marked by a stabilization of the economy, although that stabilization was only a temporary one. Ukrainian companies were looking for new markets and completing the development of their action strategies in line with new market conditions. The crisis in the financial sector of the country somewhat slowed down its pace.

For the second time since the crisis of the nineties Ukraine faced an absence of disposable capital in the market, a lack of current assets and a decline in the purchasing power of the population. Companies again had to resort to barter settlements, and promissory notes market started growing rapidly. The population, just as the companies, had to adapt to new conditions.

Similar tendencies were observed in many countries around the globe and, as a result, caused a downfall of global stock indexes (Table 1). In the meanwhile, investors' moods changing to "pessimistic" conditioned a further outflow of capital from emerging markets, in particular, from Ukraine. During the first quarter 2009, PFTS index dropped by 24,70% and at quarter end was equal to 227,34 points.

Table 1. National markets' stock indexes in the first quarter 2009

| Indexes | As of 01.01.2009 | As of 01.03.2009 | Return for the 1st quarter 2009 |
|--------------------------|-----------------------------|-----------------------------|--|
| PFTS (Ukraine) | 301,91 | 227,34 | -24,70% |
| RTS (Russia) | 626,85 | 689,63 | 10,02% |
| HANG SENG (China) | 15042,81 | 13576,02 | -9,75% |
| WSE WIG (Poland) | 28331,881 | 24036,119 | -15,16% |
| DAX (Germany) | 4973,07 | 4084,76 | -17,86% |
| S&P 500 (USA) | 931,8 | 797,87 | -14,37% |
| FTSE 100 (Great Britain) | 4638,92 | 3926,14 | -15,37% |
| NIKKEI 225 (Japan) | 9043,12 | 8109,53 | -10,32% |

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

2. Number of AMC and CII

According to the UAIB data, in the first quarter 2009, three new asset management companies emerged (in the fourth quarter 2008 – five companies), licenses of three companies were withdrawn, and, as a result, as of 31.03.2009 their number remained unchanged compared to year beginning – 409, whilst the number of registered CII reached 1263 funds. An average number of CII per one AMC grew by 0,1 and comprised 3,1 funds (Chart 1).

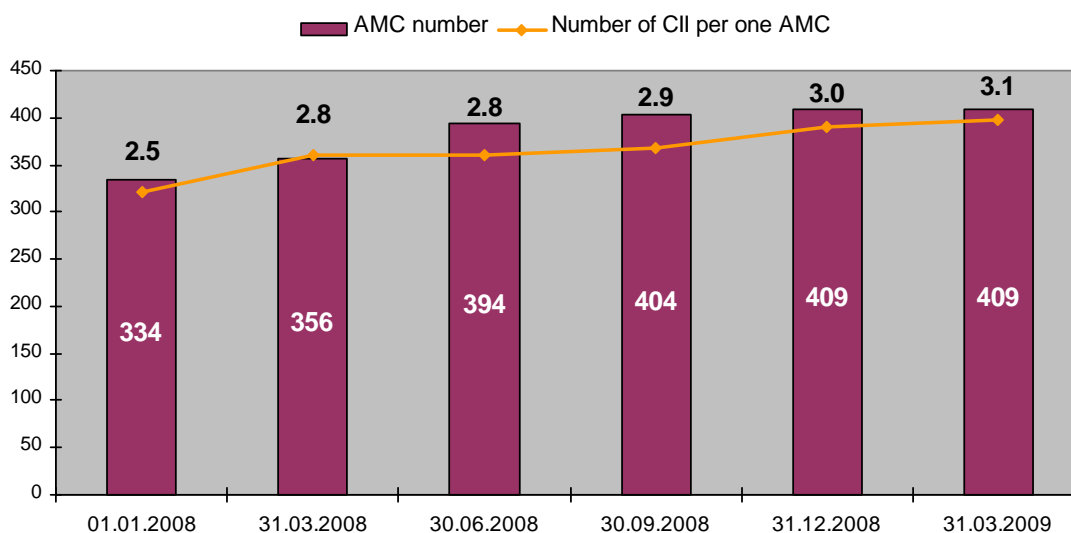


Chart 1. AMC and CII number dynamics per on AMC since 01.01.2008 through 31.03.2009

The number of CII that reached compliance with the standards as of the end of the first quarter 2009 amounted to 922 funds (Table 2). Quarterly growth comprised 3,8%. The growth was mainly due to an increase in the number of venture funds that reached compliance with the standards (+16 during quarter). At quarter end there were 652 venture CII (70,7% of the total number).

Table 2. Dynamics of the number of CII that reached compliance with the standards, by the types of CII in 2009

| Date | Total | UIF | | | | | CIF | | |
|-----------------------------|-------|----------|----------|-----------------------|---------------------------|---------|----------|---------------------------|---------|
| | | Open-end | Interval | Close-end diversified | Close-end non-diversified | Venture | Interval | Close-end non-diversified | Venture |
| 01.01.2009 | 888 | 32 | 41 | 4 | 22 | 636 | 1 | 107 | 45 |
| 31.03.2009 | 922 | 32 | 44 | 4 | 23 | 652 | 1 | 121 | 45 |
| Growth over the 1st quarter | 3,8% | 0,0% | 7,3% | 0,0% | 4,5% | 2,5% | 0,0% | 13,1% | 0,0% |

A minor growth in the number of funds that reached compliance with the standards can be explained by the consequences of declining financial activity in the industry during the crisis. A considerable time lag between the decision-making on establishing a fund and reaching the standards by that fund furthers a slow decrease in the number of funds established. By the end of 2009, growth in the number of funds should be expected to stop, and even their number could decrease, if national funds fail to redirect their activities and find new markets for themselves.

3. Regional Distribution of AMC and CII

Among the regions, just as previously, those were Kyiv and Kyiv Region that led both by the number of AMC and funds and by the total value of assets under AMC management, where 291 AMC (Chart 2) and 70,86% of funds, whose assets comprised 72,45% of the total asset volume of non-venture funds (Chart 3), were located.

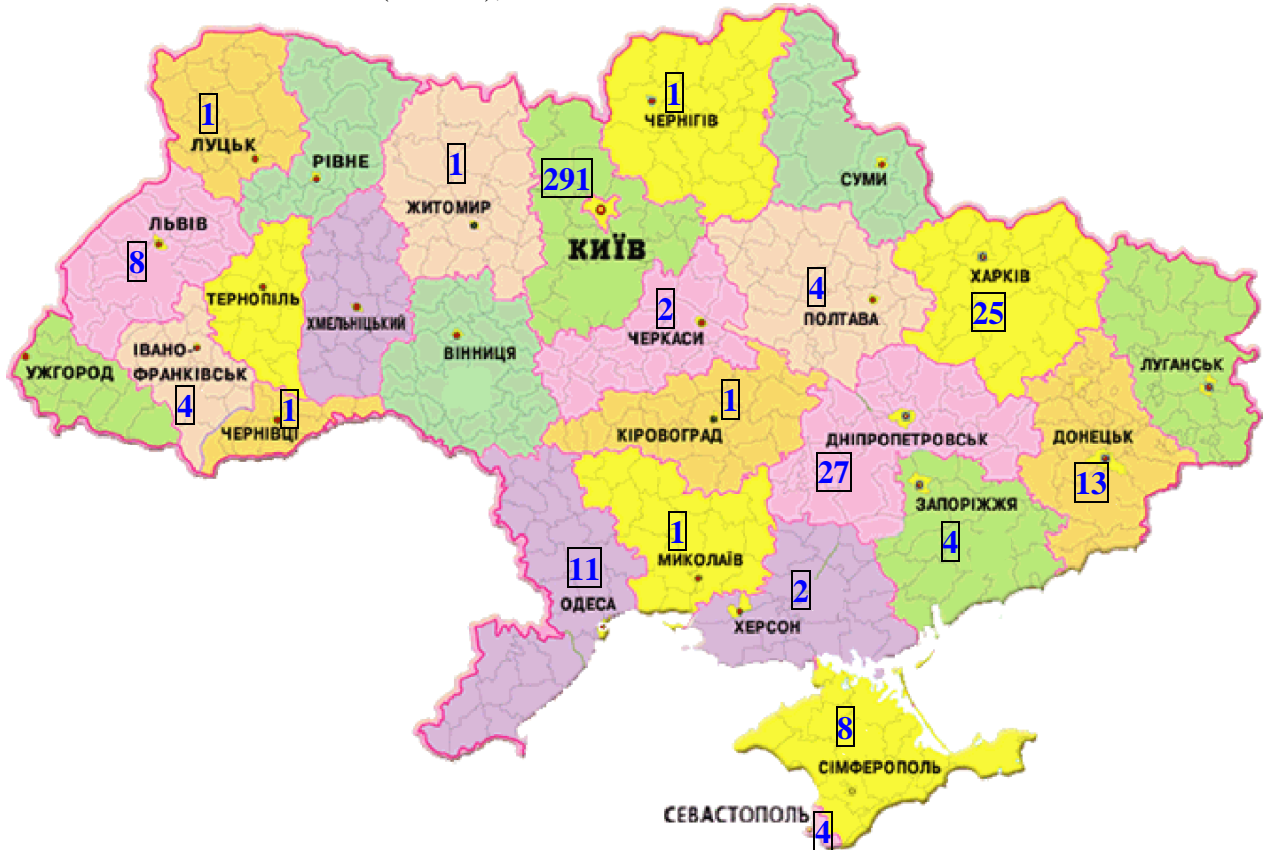


Chart 2. Regional distribution of AMC as of 31.03.2009

Second place, just as previously, went to Dnipropetrovsk Region (8,23% of CII and 9,73% of assets), and the third one - to Kharkiv Region (6,97% of CII and 8,04% of assets).

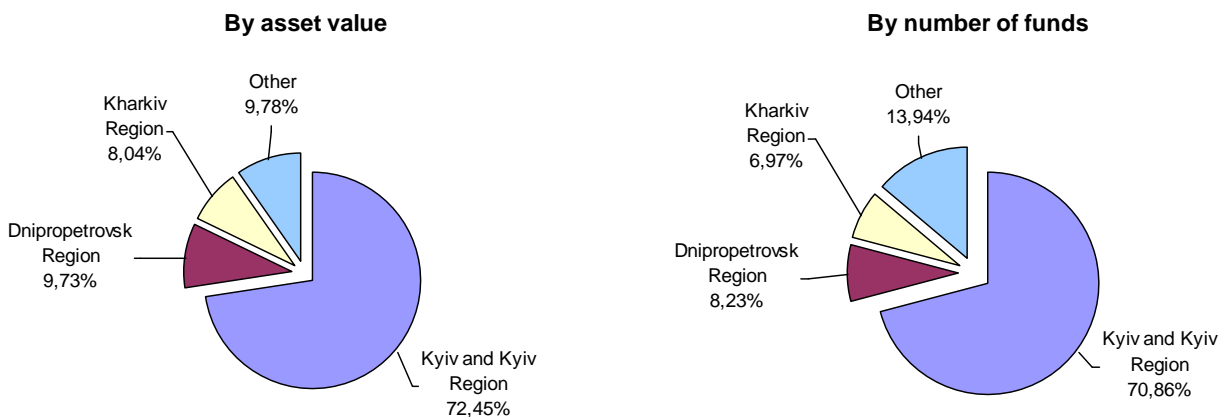


Chart 3. Regional distribution of CII by the number of non-venture funds and the value of non-venture assets under management, as of 31.03.2009

4. Non-venture CII Asset Value

During the first quarter, non-venture funds' asset value somewhat increased; at quarter end it amounted to UAH 4694,08M (+10,66% since year beginning) (Chart 4). During that period the tendency that had started by the end of 2008 continued: a decline in the asset value of non-venture CII portfolios was offset by new close-end funds with significant volumes of assets under management reaching compliance with the standards.

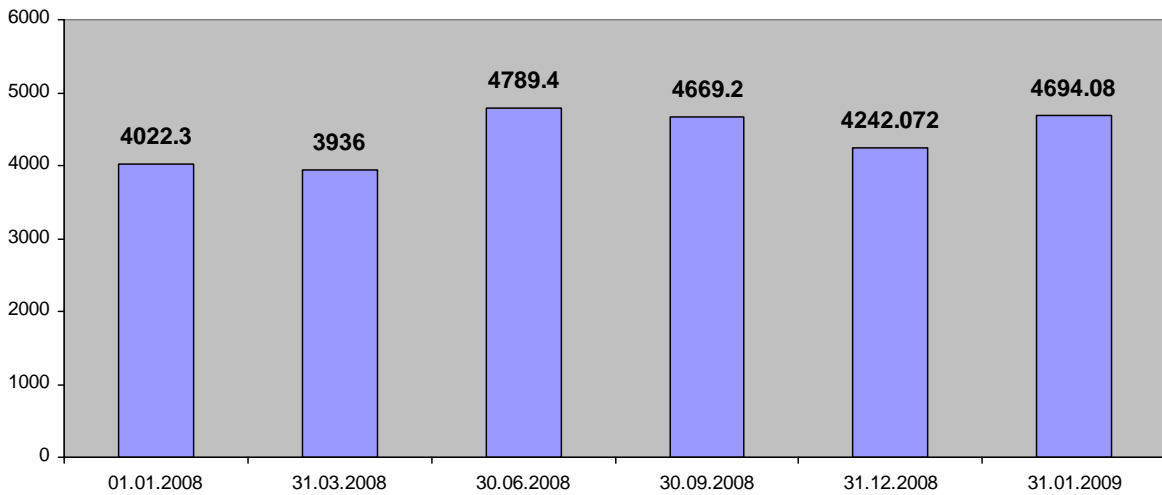


Chart 4. Non-venture CII asset value dynamics in 2008-2009, UAH M

In the first quarter, open-end and close-end funds increased their asset value (+29,09% and +11,65% accordingly). Since year beginning, the pace of interval CII asset value decrease sped up, which resulted in a decrease by 21,54% for the quarter (-17,39% in the fourth quarter 2008) and interval CII asset value of UAH 167,23M at quarter end (Table 3).

Table 3. Non-venture CII asset value dynamics in 2009, by the types of funds

| Funds | NAV as of 01.01.2009, UAH M | NAV as of 01.04.2009, UAH M | Growth for the 1st quarter |
|-----------|-----------------------------|-----------------------------|----------------------------|
| Open-end | 204,92 | 264,52 | 29,09% |
| Interval | 213,13 | 167,23 | -21,54% |
| Close-end | 3817,62 | 4262,32 | 11,65% |
| Total | 4242,07 | 4694,08 | 10,66% |

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 comprised 6% against 5% of the preceding quarter, and interval funds' one – 4% instead of 7%. Just as previously, the greatest share – 90% – was the one of close-end funds.

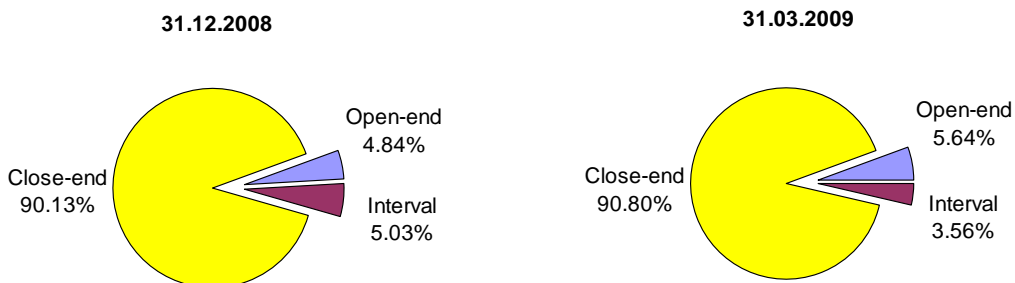


Chart. 5. Non-venture CII asset value structure, by the types of funds in 2009

Total net asset value of non-venture funds also increased: from UAH 3807,5M at quarter beginning to UAH 4210,5 M (+10,59%) – at quarter end (Table 4). That happened due to open-end (+27,42%) and close-end (+11,74%) CII, whilst the NAV of internal declined by 20,91%.

Table 4. Non-venture CII net asset value dynamics in 2009, by the types of funds

| Funds | NAV as of 01.01.2009, UAH M | NAV as of 01.04.2009, UAH M | Growth for the first quarter |
|--------------|--|--|---|
| Open-end | 204,4 | 260,5 | 27,42% |
| Interval | 210,4 | 166,4 | -20,91% |
| Close-end | 3386,3 | 3783,6 | 11,74% |
| Total | 3807,5 | 4210,5 | 10,59% |

5. Non-venture CII Asset Structure

Just as during the previous periods, the asset structure of open-end and interval funds was fairly similar. The stake of moneys and bank deposits within an aggregate portfolio of those types of funds comprised 22,80% and 22,48% accordingly, and of securities – 63,66% and 59,98%. The structure of an aggregate portfolio of close-end CII was less liquid. The stake of moneys and bank deposits comprised 7,52%, and the stake of securities – 70,65%.

The key changes within the structure of non-venture CII assets over the quarter consisted in a decrease of the stakes of: shares – by 0,12 percentage points, municipal bonds – by 0,39 percentage points, other securities – by 0,22 percentage points, as well as moneys and bank deposits – by 0,31 percentage points, and in a decrease of the stakes of: other assets – by 4,44 percentage points, OVDP – by 0,08 percentage points, and corporate bonds – by 0,23 percentage points.

Changes in the structure of interval CII assets were somewhat different. In particular, a decrease was observed in the stakes of moneys and bank deposits – by 0,15 percentage points, corporate bonds – by 0,12 percentage points, and municipal bonds – by 0,09 percentage points; whilst an increase took place in the stakes of other assets – by 0,78 percentage points, OVDP – by 0,40 percentage points, shares – by 0,03 percentage points, and other securities – by 0,08 percentage points.

Those changes could be explained by an outflow of investors from CIIs, an increase in the rate of return on OVDP due to their sale to non-residents, a certain revival in the share market, and continuing crisis in the banking sector.

The said tendencies were also observed in close-end funds, the following stakes in which decreased: municipal bonds – by 0,50 percentage points, real estate – by 0,25 percentage points, other securities – by 0,30 percentage points, savings certificates – by 0,09 percentage points, other assets – by 0,05 percentage points, and the following increased: OVDP – by 2,20 percentage points, corporate bonds – by 0,16 percentage points, moneys and bank deposits – by 0,01 percentage points.

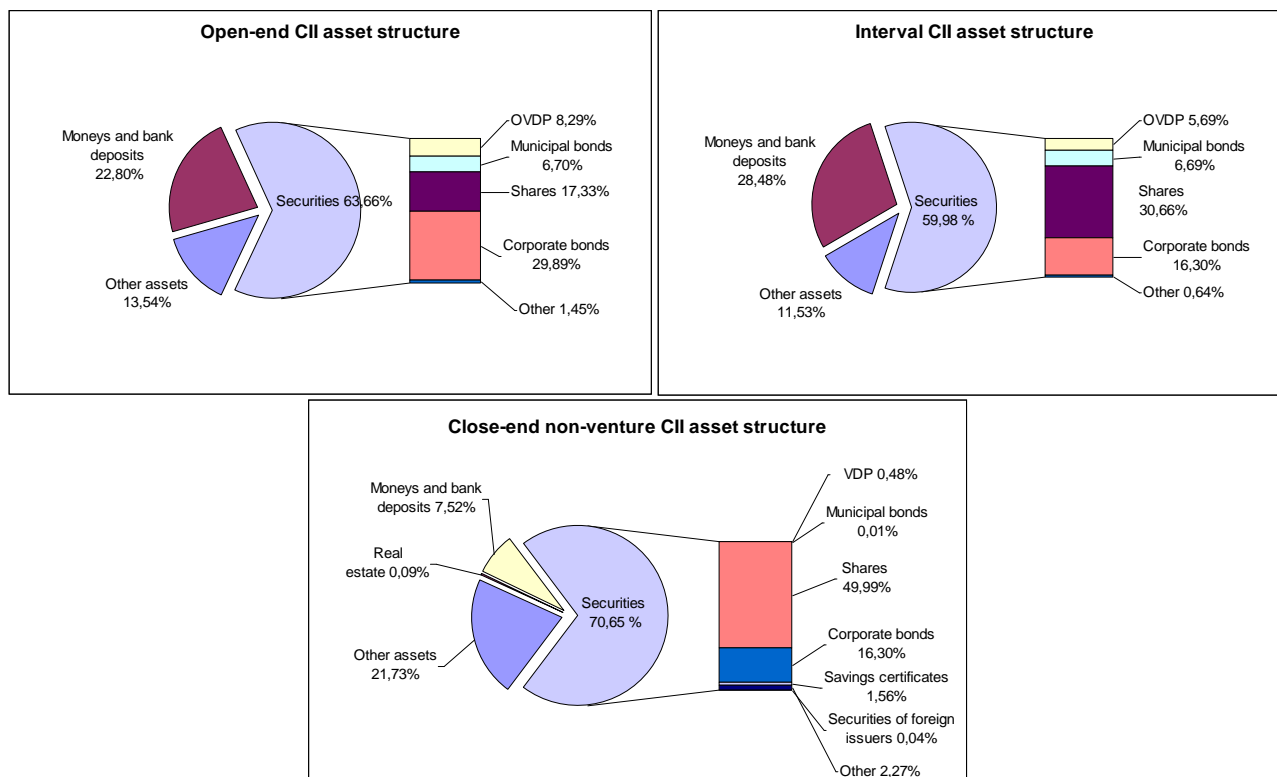


Chart 6. Non-venture CII asset structure in different types of funds as of 31.03.2009

As to the structure of consolidated CII securities portfolio by investment industries, from Chart 7 we can see that as of 31.03.2009, the key sectors into which the moneys of non-venture CII had been invested were industry (23,53% -0,04 percentage points) and finance (21,02% +0,34 percentage points). Compared to year beginning, the greatest decrease was observed in consumer services sector (4,59%, -0,44 percentage points), which was probably due to a drastic fall of citizens' incomes.

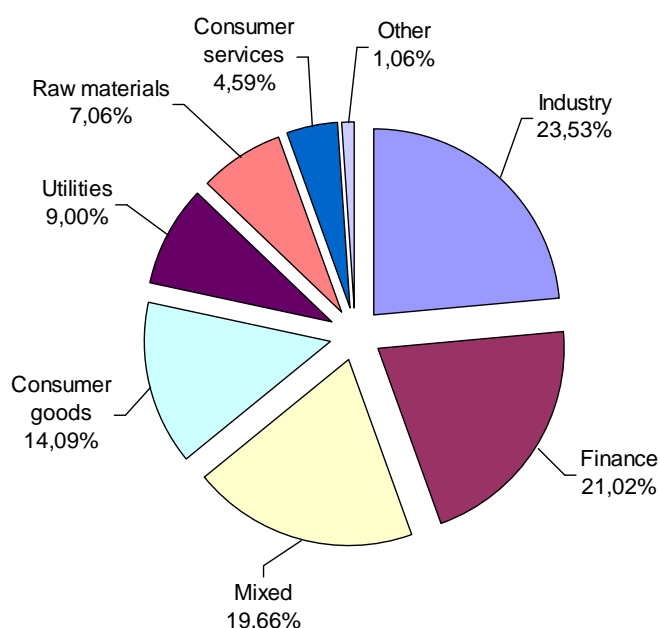


Chart 7. Consolidated non-venture CII securities portfolio structure, by investment industries, as of 31.03.2009¹

¹ According to PFTS industry classification.

Ukrainian stock market blue chips remained most popular by the presence in non-venture CII portfolios according to March 2008 PFTS equity securities rating (Table 5). Government bonds (OVDP) found in the portfolios of 89 funds became the leader, and *Azovstal Metallurgical Works (AZST)*, whose shares were present in the portfolios of 88 funds (85 at quarter beginning), became second by popularity.

Compared to quarter beginning², the shares of JSCB of social development *Ukrsotsbank (USCB)* disappeared from the top ten, and the rest of the leaders did not change.

Table 5. Most popular securities – by presence within non-venture CII portfolios as of 31.03.2009

| | Security type | Category | Issuer | Number of CII that have respective securities in their portfolios |
|----|----------------------------|--------------------------|---|--|
| 1 | Government bonds, internal | Interest-bearing, bearer | Ministry of Finance of Ukraine | 89 |
| 2 | Shares | Common registered | <i>Azovstal Metallurgical Works</i> | 88 |
| 3 | Shares | Common registered | State Energy Generating Company <i>Tsentrenergo (SEGC Tsentrenergo)</i> | 71 |
| 4 | Shares | Common registered | <i>Ukrnafta</i> | 70 |
| 5 | Shares | Common registered | Yenakyivsky Metallurgical Works | 68 |
| 6 | Shares | Common registered | <i>MOTOR SICH</i> | 66 |
| 7 | Shares | Common registered | OJSC Mariupol Heavy Engineering Works <i>AZOV</i> | 64 |
| 8 | Shares | Common registered | Lutsky Automobile Works | 58 |
| 9 | Shares | Common registered | <i>Zakhidenergo</i> | 58 |
| 10 | Shares | Common registered | Alchevsky Metallurgical Works | 58 |

Just as at quarter beginning, the leaders by an aggregate value in CII portfolios as of 31.03.2009 were assets not represented in Table 5. In other words, the greatest by volume within CII assets were securities purchased in large blocks by a small number of CII, in particular, by one CII. Compared to quarter beginning, an aggregate value of securities included into the top ten decreased by UAH 87,65 M – from UAH 977,64 M to UAH 889,99 M.

Shares of two issuers and bonds of one issuer became newcomers in this top-ten. The first trio by value looked as follows: *Grad Invest LLC* (1st place, UAH 161,37M), *OJSC Invest Capital Real Estate* (2nd place, UAH 87,30) and *OJSC Ukrainian Industrial Investments* (3rd place, UAH 85,66M) (Table 6).

² See: «Analytical Review of the Collective Investments Market in the Fourth Quarter 2008», http://www.uaib.com.ua/files/articles/1034/91_4.pdf

Table 6. Most popular securities – by aggregate value in CII portfolios as of 31.03.2009

| | Security type | Category | Issuer | Value of securities purchased by CII, UAH |
|----|-----------------|----------------------------------|---|---|
| 1 | Corporate bonds | Non-interest bearing, registered | Grad Invest LLC | 161 366 910,40 |
| 2 | Shares | Common registered | OJSC Invest Capital Real Estate | 87 302 752,80 |
| 3 | Shares | Common registered | OJSC Ukrainian Industrial Investments | 85 663 600,00 |
| 4 | Corporate bonds | Non-interest bearing, registered | Vyrobnychy Viector | 84 289 586,33 |
| 5 | Shares | Common registered | Donetsky Ore-Repairing Works | 83 528 102,07 |
| 6 | Shares | Common registered | OJSC AvangardInvest | 82 989 412,00 |
| 7 | Shares | Common registered | Derevoobrobka | 80 938 190,00 |
| 8 | Shares | Common registered | Leninska Kuznia Plant | 78 898 095,09 |
| 9 | Shares | Common registered | Darnytsky Reinforced Concrete Constructions Plant (ZBK) | 78 339 233,60 |
| 10 | Shares | Common registered | Promtitan | 66 675 000,00 |

6. Non-venture CII Return

Continuing stock market decline caused a drop in CII returns. Quarterly results demonstrated that only close-end non-venture CII earned a small average return – 4,05% (Chart 8).

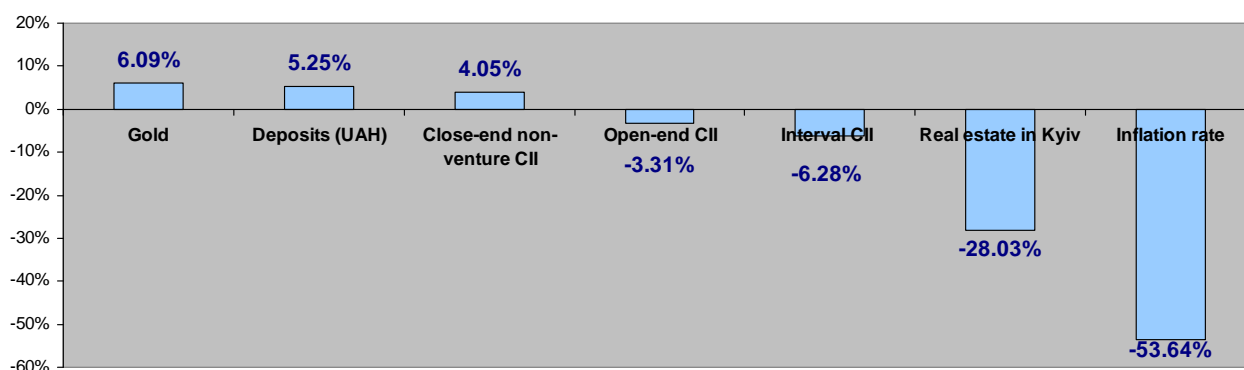


Chart 8. Average return - different types of CII, gold, deposits and inflation rate in the first quarter 2009³

Interval funds continued demonstrating the poorest results (-6,28% for the quarter). For the most part, that was due to the investors' exit from the funds. Open-end CII were second by losses (-3,31% for the quarter). Regulation as to the daily buyout of certificates by such funds requires from them a very objective revaluation of assets, which makes them the most realistic indicator of the collective investments market situation. Their efficiency is somewhat reduced by currently existing requirements to open end funds' asset diversification, as well as by their being most affected by capital outflow.

³ 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/mod/main/indexes/>).

Just as at 2008 end, negative return (-28,0% for the quarter) was earned by investments into real estate. In the situation of dollar destabilization and commodity markets' decline, gold strengthened its position (+6,09% for the quarter), having become a financial instrument that earned the highest return in the first quarter.

Second place by return went to deposits in the national currency, the rates on which somewhat increased in the conditions of liquidity crisis (+5,25% for the quarter) and significantly exceeded quarterly inflation rate (53,6%, calculated based on the level of return on investments).

7. Non-venture CII Certificates' Ownership Structure

In the first quarter 2009, legal entities – residents remained the key investors of non-venture CII, despite an outflow of investors' moneys from the funds. As of 31.03.2009, the share of such investors reached 84,94% (-0,03 percentage points) of an aggregate NAV (87,84% – at year beginning). A small increase of the share of moneys of legal entities – residents occurred due to an increase of those investors' moneys in open-end CII from 1,37% of the NAV at quarter beginning to 17,71% – at the end (+11,96 percentage points). Such an increase was in the first turn due to entering the market by new open-end funds with significant NAV and a share of legal entities – residents among investors.

The second place was taken by legal entities – non-residents, whose investments grew from 3,88% of an aggregate NAV of non-venture CII at quarter beginning to 8,84% (+1,28 percentage points) at the end. The greatest share of such investments (56,60%) was in open-end funds, but the greatest growth was observed in close-end funds – by 6,76 percentage points. The third place was occupied by natural persons – residents (6,00% of an aggregate NAV of non-venture CII (8,25% – at quarter beginning), who were present mainly in interval CII (87,62% of those funds' NAV).

Table 7. Non-venture CII certificates' ownership structure as of 31.03.2009, % of NAV

| Funds | Legal entities- residents | Legal entities non-residents | Natural persons- residents | Natural persons - non-residents |
|--------------|--------------------------------------|---|---------------------------------------|--|
| Open-end | 17,71% | 53,60% | 27,93% | 0,76% |
| Interval | 7,11% | 0,62% | 87,62% | 4,65% |
| Close-end | 92,47% | 6,43% | 1,10% | 0,00% |
| Total | 84,94% | 8,84% | 6,00% | 0,23% |

8. Resume

The first quarter 2009 was characterized by continuation and further deepening of the financial crisis, which was also affecting economic processes. National stock market decline started in 2008 did not stop, but the majority of funds succeeded in performing better than the major indexes.

The volume of investments attracted to the market decreased, which is a sign of declining investors' trust in investments in the stock market. Political crisis and a lack of efficient anti-crisis action on the part of the government did not further revival of investors' trust.

The financial sector crisis continued destabilizing the stock market and the collective investments market. Such processes in the national economy may result in a drop of trading volumes in the stock market and a decrease of investments into the collective investments market.

However, it should be noted that stock market decline may not be endless, and stabilization of the market by mid-year and its growth by year end are quite possible provided positive changes occur in the political situation or in the industrial sector. Also possible is appearance of new types of funds that will be specializing in such areas, as direct investments of medium business, work with problem assets of the financial sector, or acquisition of bankrupt companies.