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1. The Stock Market

Second after-crisis year - 2010 - also became successful for all stock markets around the globe, including the Ukrainian one, although the growth rates were slower (Table 1).

Uptrend was interrupted by deep drawdowns (Q2: drop of the key international equity indexes by 3-23%), conditioned by the investors' loss of confidence as to the speed of global economy growth restoration, state budgets' deficit-related problems becoming more pressing in Euro zone, slowing down by China the development of its economy, as the latter significantly outperformed the rest of the world by growth rate and started suffering from inflation. 2010 negative Asian index indicators became a result of yen strengthening against US dollar, which weakened the positions of Japanese exporters, and an overall slowing down of the Japanese economy, as well as of the military action on the Korean Peninsular, which were followed by repercussions throughout the globe in Q4.

Despite that, most of the global equity markets demonstrated a significant growth according to the results of 2010, primarily due to the signals on macroeconomic situation improvement from the USA and Europe, and financial results of the global corporations. Annual indicators were within the range of -14.3% (China) and +16.1% (Germany).

The Russian and Ukrainian markets again were the leaders by indexes' growth (Table 1, Chart 1). Whilst neighboring equity indexes were growing mainly on a slow but confident oil prices' increase (+22.5-23.2%), the Ukrainian stock indexes, which responded primarily to the positive news from abroad, and were going up considerably faster than the foreign peers, were growing on the expectations of further recovery of the Western markets and inflow of capital to the developing countries. During the year, national stock market indicators went up by 67.9 - 70.2%, at a minor increase of trading activity.

able 1. National markets' stock indexes in 2009-2010*

Indexes	31.12.2008	31.12.2009	31.12.2010	Change during 2009	Change during 2010
PFTS (Ukraine)	301.42	572.91	975.08	90.07%	70.20%
UX (Ukraine)	759.63	1 455.47	2 443.70	91.60%	67.90%
MICEX (Russia)	619.53	1 370.01	1 687.99	121.14%	23.21%
RTS (Russia)	631.89	1 444.61	1 770.28	128.62%	22.54%
DAX (Germany)	4 810.20	5 957.43	6 914.19	23.85%	16.06%
WSE WIG 20 (Poland)	1 789.73	2 388.72	2 744.17	33.47%	14.88%
S&P 500 (USA)	903.25	1 115.10	1 257.64	23.45%	12.78%
DJIA (USA)	8 776.39	10 428.05	11 577.51	18.82%	11.02%
FTSE 100 (Great Britain)	4 434.17	5 412.88	5 899.94	22.07%	9.00%
HANG SENG (Hong Kong)	14 387.48	21 872.50	23 035.45	52.02%	5.32%
NIKKEI 225 (Japan)	8 859.56	10 546.44	10 228.92	19.04%	-3.01%
CAC 40 (France)	3 217.97	3 936.33	3 804.78	22.32%	-3.34%
SHANGHAI SE COMPOSITE (China)	1 820.81	3 277.14	2 808.07	79.98%	-14.31%

* Based on the data of exchanges and Bloomberg Agency

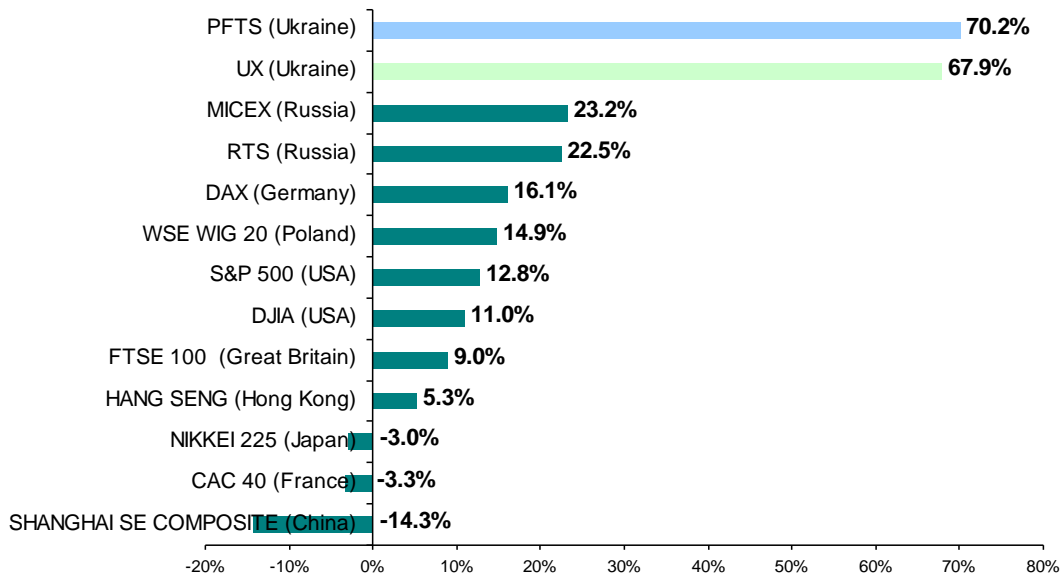


Chart 1. National markets' stock indexes dynamics in 2010*

* Based on the data of exchanges and Bloomberg Agency

2. The Number of AMC and CII

According to the UAIB data, the number of asset management companies in 2010 continued to decrease – from 380 to 339 AMC (-10.8%), while the number of registered CII, unlike in 2009, increased – from 1202 to 1226 funds (+2%). New funds were established, and some existing funds were liquidated. On the whole, during 2010, the dynamics of the number of CII operating in Ukraine was differently directed, although a gradual market recovery following the main “wave” of the crisis finally promoted an increase in the number of the investment funds’ market participants.

An average number of investment funds per one AMC was growing during the year, with exception of Q4, when their number was decreasing comparatively faster than the number of AMC. As of the end of 2010, there were 3,6 funds per one AMC on average. Consequently, based on the annual indicators, this ratio has been demonstrating a stable growth since 2003 (Chart 2).

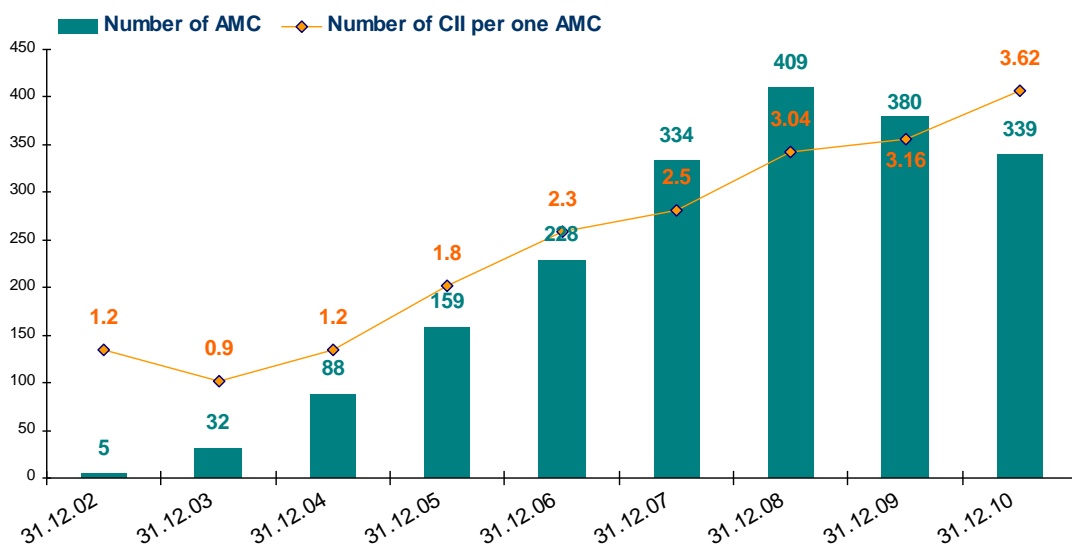


Chart 2. Dynamics of the number of AMC and CII per one AMC in 2003-2010

The dynamics of the number of CII recognized such that reached compliance with the standards in 2010 also sped up, and as of December 31 there were 1095 such CII (+110 funds, +11,2%) (Table 2).



Therefore, the tempo of entering the market by funds somewhat accelerated, although remained comparable with the one of 2009 (+97 funds, +10.9%). A few funds already compliant with the standards started liquidation procedure (close-end funds, as well as other funds), some funds did not reach the standard as to the minimal asset volume and were liquidated even before becoming compliant.

able 2. Dynamics of the number of CII that reached compliance with the standards during 2010, by the types and categories of funds

	Total	PIF					CIF		
		O*	*	CD*	CNN*	CNV*	*	CNN*	CNV*
31.12.2009	985	32	47	8	26	690	2	130	50
31.03.2010	1015	32	47	9	28	715	2	130	52
30.06.2010	1050	32	47	9	27	722	3	145	65
30.09.2010	1069	35	48	9	29	732	2	145	69
31.12.2010	1095	36	48	9	32	755	2	141	72
Change during the year, funds	110	4	1	1	6	65	0	11	22
Change during the year, %	11.17%	12.50%	2.13%	12.50%	23.08%	9.42%	0.00%	8.46%	44.00%

* O – open-end, – interval, CD – close-end diversified, CNN – close-end non-diversified non-venture, CNV – close-end non-diversified venture

As usual, unit venture funds were the driver of the recognized CII number increase (+66 during the year). As of 2010 end, venture funds remained the leader by their share within an aggregate number of recognized CII, at that, its increase was hardly noticeable (from 75.13% to 75.53%).

At the same time, among different types of funds in 2010, venture corporate CII and close-end non-diversified PIF demonstrated the greatest relative growth in the number of CII that reached compliance with the standards: +44% (+22 funds) and +23% (+6 funds) respectively.

Also, after the “downtime” of 2009, the number of open-end funds increased by 4, with the major “inflow” taking place in Q3 (+3 funds), which was probably due to establishment of funds at year beginning during the skyrocketing of the Ukrainian indexes and an overall buoyancy in the stock markets. All in all, in 2010, 6 open-end funds reached compliance with the standards, and two funds stopped went out of business.

As of 31.12.2010, there were 131 registered CII, which had not been recognized by the said date, of which 4 were open-end CII.

3. The Regional Distribution of AMC and CII

Kyiv and Kyiv Region kept unprecedented leadership by the number of registered asset management companies and investment funds (Chart 3).

At the same time, negative dynamics of the number of AMC in Ukraine this year could be attributed first of all to a decrease in the number of companies in Kyiv region (-35 companies, -12.9%), although the pace of decrease compared to 2009 slowed down nearly twice. As a result, the share of Kyiv companies narrowed from 70.3% to 69.6%.

As of 31.12.2010, there were: 236 AMC operating in Kyiv and Kyiv region, and in the rest of the regions with relatively developed asset management sector – 25 AMC in Dnipropetrovsk region and 21 AMC in Kharkiv region.

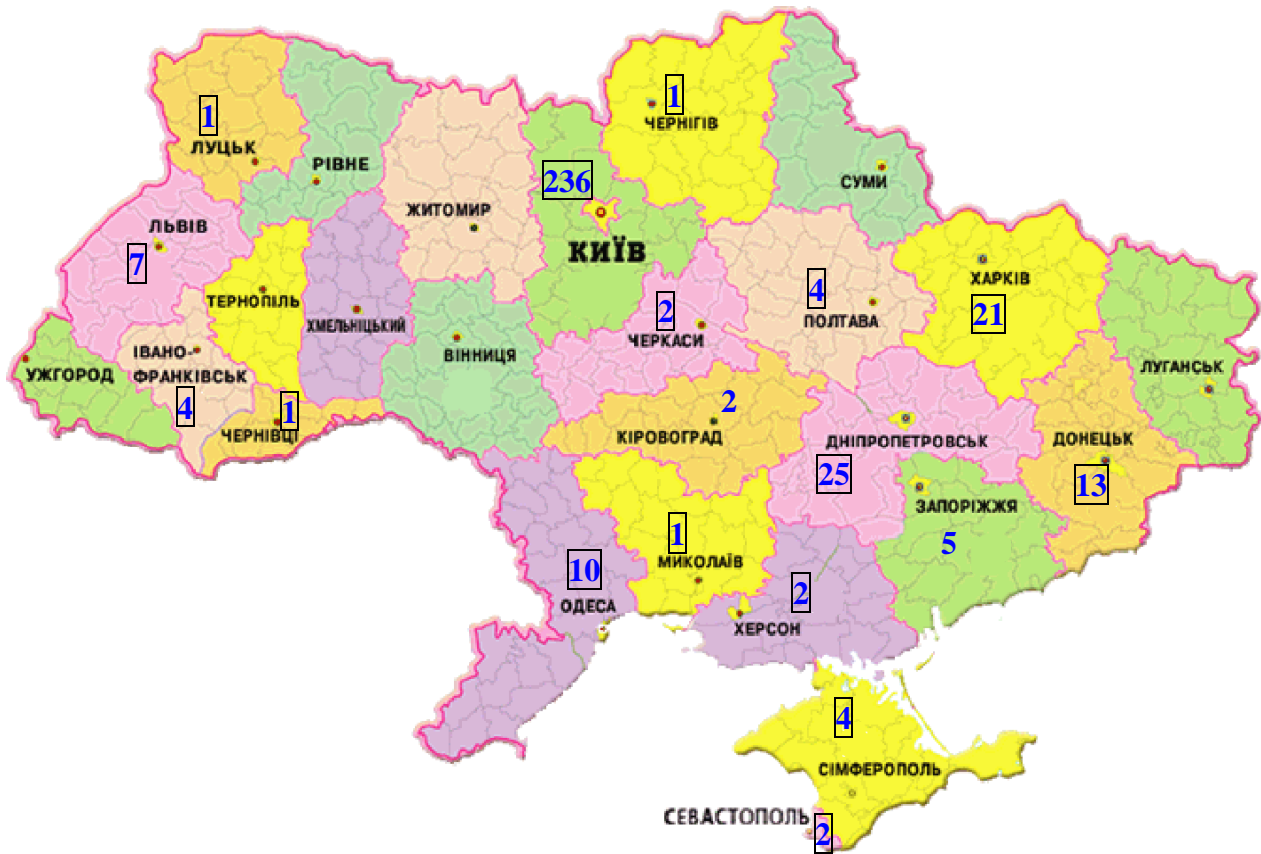


Chart 3. Regional distribution of AMC as of 31.12.2010

Contrary to the dynamics of AMC number, changes in the distribution of CII assets in 2010 were again in favor of Kyiv region (its share within the aggregate assets went up from 70.9% to 72.3%), although Kyiv somewhat weakened its positions by the number of funds (from 70.3% to 70.0%) (Chart 3). All the above confirms that the capital possesses a greater scope of funds with more active dynamics compared to other regions.

Similarly, the share of Dnipropetrovsk region by the number of CII in 2010, just as during the preceding year, decreased a little – from 8.10% to 8.06%, but by the assets – grew from 11.4% to 12.6%. Several other regions-leaders also decreased their market coverage, in particular: Kharkiv – from 6.7% to 6.3% of CII and from 7.9% to 5.8% of assets; Odessa – from 1.9% to 1.7% of CII and from 1.51% to 1.46% of assets.

Donetsk region, on the contrary, broadened its market presence by the number of CII (from 2.6% to 3.0%), but narrowed it by the asset volume (from 4.2% to 4.0%).

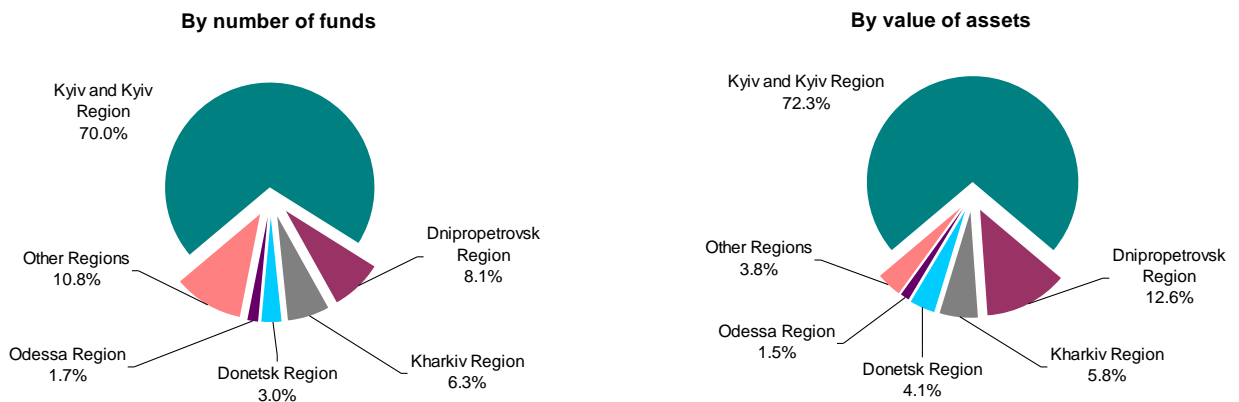


Chart 4. Regional distribution of CII by number and asset value, as of 31.12.2010



4. The Asset and The Net Asset Value of CII

In 2010, the **aggregate value of CII assets** increased by 31% (+UAH 25.59 bln.) and at year end reached UAH 108.13 bln. (Chart 5). Therefore, the market managed to preserve the asset growth rate almost unchanged, and in absolute value terms the growth exceeded last year result (+UAH 19.28 bln.).

Just as in 2009, the key drivers of the said growth were: upward stock market dynamics during the year, as well as the prevalence of close-end funds, which hardly ever experience an outflow of investors' contributions.

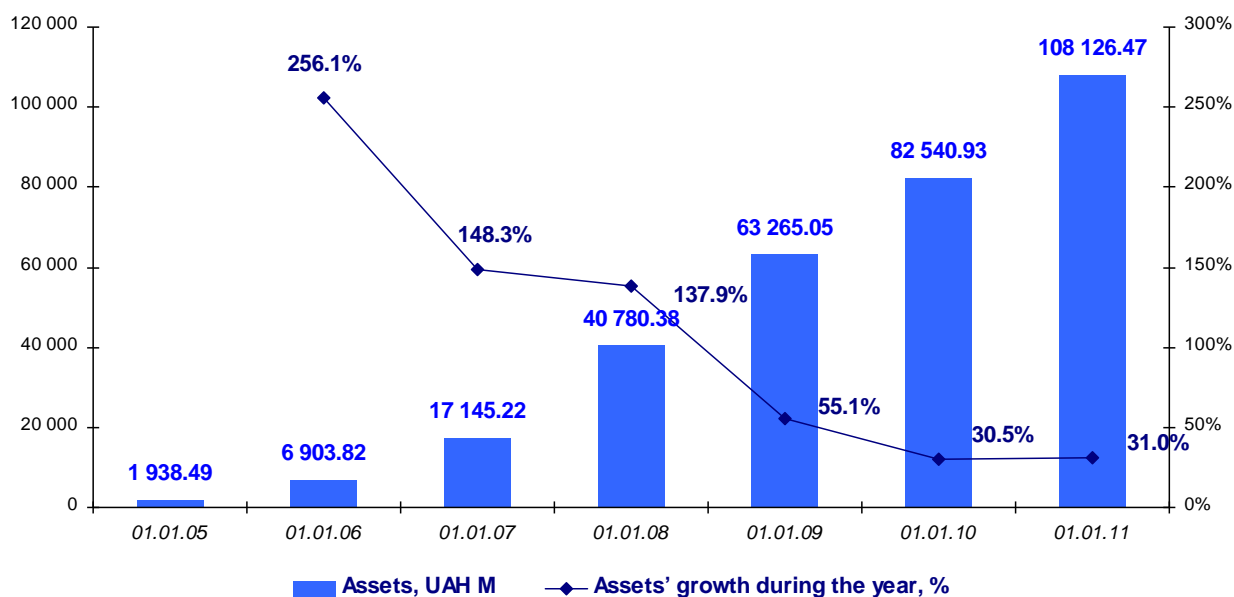


Chart 5. Dynamics of the asset value of CII in 2005-2010

As a result of such changes, and as Ukrainian GDP in 2010 grew by 19.9% (in actual prices), the CII market continued strengthening its position in the Ukrainian economy, having increased the ratio of its assets to the GDP from 9.04% to 9.88%.

Investment funds also performed better than bank deposits, which in 2010 grew by 26.4%: while the share of deposits within the GDP grew by 5.5%, the share of the CII assets – by 9.3% (Table 3). However, just as previously, the volume of bank deposits of the citizens and legal entities in Ukraine significantly exceeded the value of the CII assets (in 2010 the ratio decreased from 3.97 to 3.83), at that, in assets calculation were included all types and categories of CII, the majority of which were privately placed.

Table 3 Volumes and dynamics of CII assets and moneys attracted to the bank deposits compared to GDP in 2010

	31.12.2009		31.12.2010		Change	Change of share within GDP	
	UAH M	Share within GDP	UAH M	Share within GDP		p.p.	%
GDP (in actual prices)*	913 345		1 094 607		19.85%		
Bank deposits**	327 743	35.88%	414 238	37.84%	26.39%	0.0196	5.46%
CII assets	82 541	9.04%	108 126	9.88%	31.00%	0.0084	9.30%

* Based on the data of the State Statistics Committee.

** Based on the NBU data.

In 2010, just as in 2009, the greatest asset growth rate was observed in close-end non-venture funds (+38.8%, +UAH 2.34 bln.), which was mainly due to an increase of the securities' value in the investment portfolios. The sector assets at year end reached UAH 8.35 bln. (Table 4).

In absolute terms, the greatest growth was traditionally demonstrated by the venture funds (+UAH 23.21 bln., +30.53%).

Open-end funds, which during 2010 experienced a massive outflow of investments during the stock market failure in Q2, as well as a massive inflow during the skyrocketing of the stock indexes in Q4, are



worth noticing. This sector's annual asset growth reached UAH 45.35M (+18.84%). That slightly exceeded only the result of the last quarter (+UAH 42,64M, +17,52%), which to a considerable extent was determined by a net inflow of investors' moneys in November (+UAH 43,55M), and provided for by one fund only. At year end, a net outflow from the open-end CII was registered again (-UAH 12,38M) – also mainly to an outflow from one fund.

Among the key growth drivers of the sector assets was also such as entering the market by new participants: 6 new funds, which were recognized during 2010, as of 31.12.2010 had an aggregate asset volume of UAH 21.29M. On the other hand, the aggregate assets of two CII, which exited from the market in Q3-4, comprised less than UAH 1M.

Table 4. Dynamics of the asset value of CII in 2010, by the types of funds, UAH M*

Funds	31.12.2009	31.12.2010*	Change during the year	
Open-end	240.72	286.07	45.35	18.84%
Interval	256.19	252.53	-3.66	-1.43%
Close-end (non-venture)	6 015.80	8 351.82	2 336.02	38.83%
All (non-venture)	6 512.71	8 890.41	2 377.70	36.51%
Venture	76 028.21	99 236.05	23 207.84	30.53%
All	82 540.93	108 126.47	25 585.54	31.00%

* For open-end, interval and close-end non-venture ones - based on quarterly reporting data (36, 43 and 170 funds respectively), for venture ones - based on annual reporting data (778 funds).

An aggregate growth rate of the non-venture funds in 2010 turned out to be nearly the same as in 2009 – by 36.5%, and an absolute growth in 2010 exceeded the last year's indicator (+UAH 2.38M). At year end, the assets of open-end, interval and close-end non-venture CII comprised UAH 8.89 bln.

As the dynamics of different types of funds was different, breakdown of the market assets changed: the share of close-end non-venture CII increased from 7.3% to 7.7%, whilst the shares of the other types of funds continued to decrease, in particular, in case of venture ones – from 92.1% to 91.8% (Chart 6).

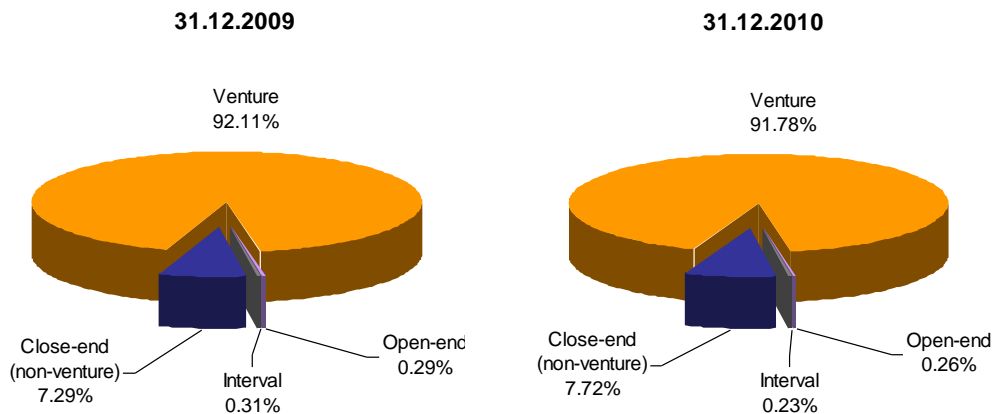


Chart 6. Distribution of CII asset value by the types of funds at the beginning and at the end of 2010

The tempo of an aggregate CII **net asset value** growth has been maintained for the three years in a row: in 2010 NAV grew by 32.9% (2009 – by 32.89%, 2008 – by 29.94%). As of 31.12.2010, it reached UAH 96.45 bln. (Table 5). That was promoted by the dynamics of all types of funds, except interval ones (-1.1%). The fastest growth was observed in the net assets of close-end non-venture CII (+43.2%), and the greatest growth in monetary terms was demonstrated by venture funds (+UAH 21.49 bln.).



Table 5. Dynamics of NAV of CII in 2010, by the types of funds, UAH M

Funds	31.12.2009	31.12.2010*	Change during the year	
Open-end	234.35	281.35	47.00	20.05%
Interval	247.95	245.22	-2.73	-1.10%
Close-end (non-venture)	5 429.78	7 775.72	2 345.94	43.20%
All (non-venture)	5 912.08	8 302.29	2 390.20	40.43%
Venture	66 662.11	88 151.82	21 489.72	32.24%
All	72 574.19	96 454.11	23 879.92	32.90%

* For open-end, interval and close-end non-venture ones - based on quarterly reporting data (36, 43 and 170 funds respectively), for venture ones - based on annual reporting data (778 funds).

5. The Asset Structure of CII

The breakdown of CII assets **by the types of instruments** underwent considerable changes in 2010. In spite of the stock market growth according to the annual results, in all types of funds, except venture ones, the share of equities noticeably decreased and, continuing the tendency of 2009, so did the share of corporate bonds, whilst the relative value of investments into government securities and "other" assets increased, and in open-end funds increase also took place in the share of moneys on bank accounts, which to a great extent was due to the active dynamics of attracting moneys by one of the new market participants.

On the whole, securities remained the primary direction of funds' investments, with equities preserving the leadership, with exception of venture CII, where the major share belonged to "other" securities (mainly mortgage securities and promissory notes), and the absolute majority was reserved by "other assets" (corporate rights, loans) (Chart 7).

Major changes in the structure of **open-end CII** investment portfolio during 2010 consisted in increase of the value of the following types of investments:

- "other assets" – from 0.09% to 8.69%;
- OVDP – from 8.57% to 13.09%;
- moneys and bank deposits – from 23.36% to 27.41%;

as well as in a decrease of the shares of the following securities:

- corporate bonds – from 18.80% to 8.87%;
- equities – from 42.92% to 36.74%.

Other securities were not present in the aggregate portfolio of open-end funds both at the beginning and at the end of the year.

Nearly same tendencies were characteristic of the dynamics of the asset structure of **interval CII**, with exception of the change in the most liquid component – moneys in banks, whose share in these funds decreased.

In 2010, interval funds increased respective shares of investments into the following instruments:

- "other" assets – from 0.02% to 7.86%;
- OVDP – from 3.91% to 4.86%;

In the meanwhile, the shares of the instruments below decreased most:

- equities – from 56.24% to 53.91%;
- corporate bonds – from 9.85% to 8.02%;
- moneys and bank deposits – from 25.28% to 24.20%.

Investments into "other" securities were absent in these funds as of year end (as of 2009 end they comprised 2.14%).

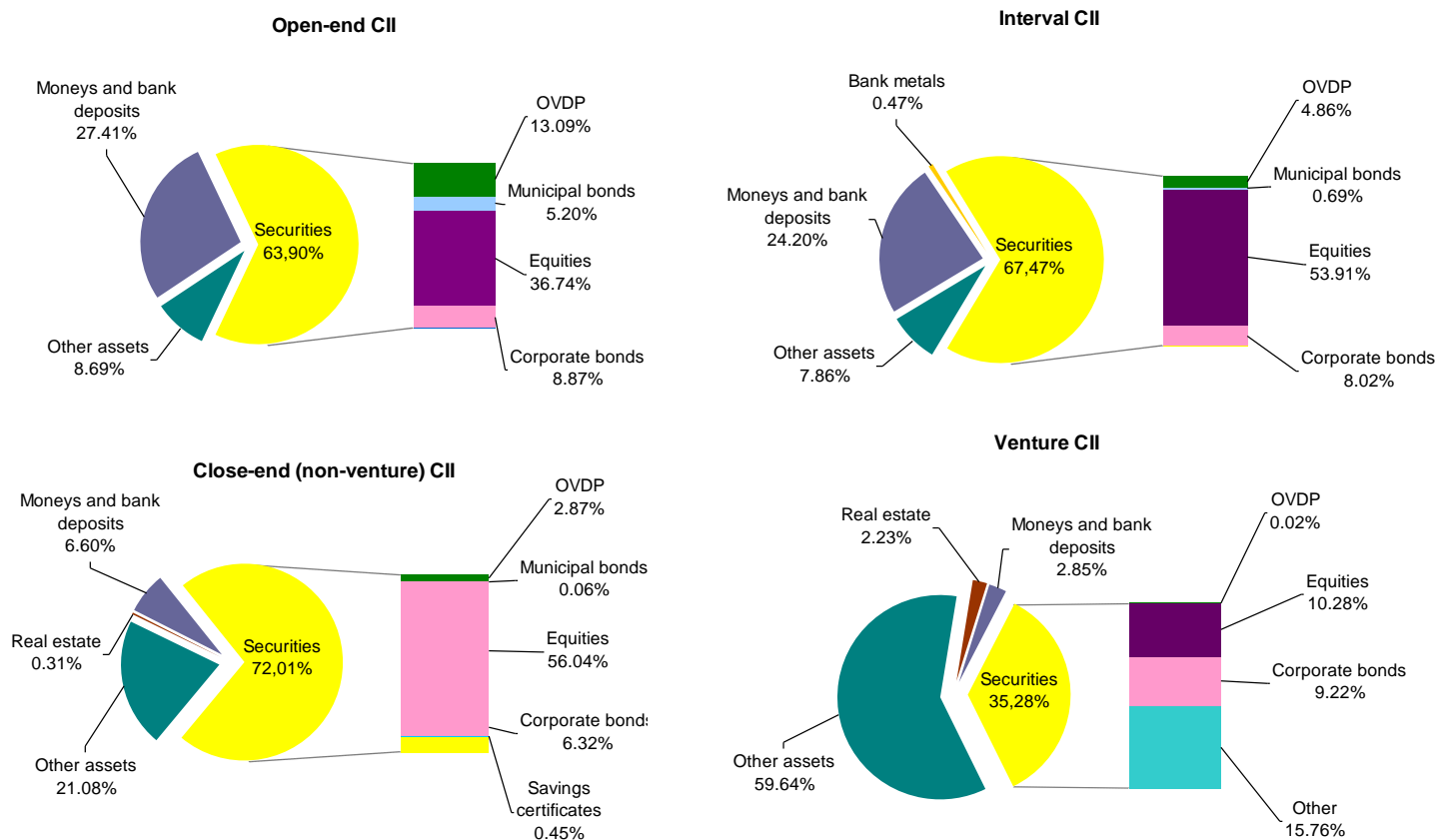


Chart 7. Non-venture CII asset value structure, by the instruments and types of funds as of 31.12.2010

In the aggregate portfolio of **close-end (non-venture) CII**, unlike in 2009, the share of equities underwent perhaps the greatest decrease, as the shares of “other” assets, OVDP and “other” securities significantly increased. The key changes in the asset structure were related with an increase in respective shares of the following components:

- “other” assets – from 10.16% to 21.08%;
- OVDP – from 0.52% to 2.87%;
- “other” securities – from 2.29% to 6.28%;

whilst a decrease occurred in the shares of:

- equities – from 61.88% to 56.04%;
- corporate bonds – from 15.90% to 6.32%;
- moneys and bank deposits – from 7.67% to 6.60%.

In 2010, the asset structure of **venture CII** underwent the greatest changes: at year end an absolute majority belonged to “other” assets (as of 2008 end, nearly half of the assets of this CII type had been placed into them). In the meanwhile, the shares of equities, corporate bonds and “other” securities decreased almost twice.

Most significant changes occurred in the following positions of an aggregate portfolio of the venture funds:

- “other” assets (including corporate rights, loans, receivables) – increased from 24.34% to 59.64%;
- real estate – increased from 1.12% to 2.23%;

and a decrease occurred in the shares of:

- equities – from 20.45% to 10.28%;
- corporate bonds – from 22.81% to 9.22%;
- “other” securities (including promissory notes, mortgage securities) – from 26.72% to 15.76%;
- moneys and bank deposits – from 4.34% to 2.85%.



Mortgage securities and promissory notes (in view of a considerable domination of venture funds by asset quantity and value) remained **most popular securities by their presence** in the assets of CII in 2010. Leadership by the number of CII belonged to the mortgage securities of LLC "Exco-Plus" (411 fund) and LLC "Kovalska Invest" (308 funds), as well as to the promissory notes of LLC "BVK Company "Fedorchenko" (291 fund). Furthermore, most frequently to the portfolios of CII were purchased government bonds and Ukrainian equities from the first tier of listing – the equities of OJSC "Azovstal Metallurgical Works" (144 funds) and of OJSC "DEK "Tsentrenergo" (137 funds) (Table 6).

Table 6. Most popular securities by presence in CII portfolios as of 31.12.2010

	Security type	Category	Issuer's name	Number of CII holding the security in their portfolios
1	Mortgage securities	mortgage	LLC "Exco-Plus"	411
2	Mortgage securities	mortgage	LLC "Kovalska Invest"	308
3	Promissory notes	common	LLC "BVK Company "Fedorchenko"	291
4	Promissory notes	common	LLC "New Financial Company"	233
5	Promissory notes	common	OJSC "Ukrainian Innovation and Financial Company"	226
6	Promissory notes	common	LLC "Kyivsky Wholesale Market"	214
7	Internal state loan bonds	interest-bearing	Cabinet of Ministers of Ukraine	169
8	Promissory notes	common	LLC "City - State"	160
9	Equities	common registered	OJSC "Azovstal Metallurgical Works"	144
10	Equities	common registered	OJSC "DEK Tsentrenergo"	137

Among the instruments most frequently found within *non-venture CII* assets (Table 7), as of 31.12.2010 led the equities of OJSC "Azovstal Metallurgical Works" (90 funds) and of OJSC "DEK Tsentrenergo" (87 funds). Just as in all CII, in the non-venture CII in particular, OVDP were among the leaders by presence in funds' portfolios (84 funds).

As for industry coverage, the equities of metallurgy, energy-generating and machine-building companies remained most popular. Somewhat different dynamics was characteristic of the banking sector equities. Among the most popular securities here were: the equities of the JSCB of Social Development "UkrSotsbank" (14th place) and of the OJSC "Raiffeisen Bank Aval" (11th place).

Table 7. Most popular securities by presence in non-venture CII portfolios as of 31.12.2010

	Security type	Category	Issuer's name	Number of CII holding the security in their portfolios
1	Equities	common registered	OJSC "Azovstal Metallurgical Works"	90
2	Equities	common registered	OJSC "DEK Tsentrenergo"	87
3	Internal state loan bonds	interest-bearing	Cabinet of Ministers of Ukraine	84
4	Equities	common registered	OJSC "Motor-Sich"	72
5	Equities	common registered	OJSC "Donbasenergo"	69
	Equities	common registered	OJSC "Avdiyivsky By-Product Coke Plant"	69
6	Equities	common registered	OJSC "Yenakyivsky Metallurgical Works"	64
7	Equities	common registered	OJSC "Concern Strol"	62
	Equities	common registered	OJSC "Yasynivsky By-Product Coke Plant"	62
8	Equities	common registered	OJSC "Poltavsky GZK"	59
9	Equities	common registered	OJSC "Alchevsky Metallurgical Works"	58
10	Equities	common registered	OJSC "Ukrtelecom"	55

By aggregate value within all investment funds' assets as of 2010 end, most popular, just as before, were securities present in the portfolios of a few CII.

Promissory notes of LLC "Select" – the leader of 2009 and Q1-2 2010 by investments' volume– left the TOP-10. The first place went to the promissory notes of "Stanislavska Trading Company" (UAH 916.13M) present in the portfolios of nine funds. Second place went to the bonds of LLC "Vyrobnychy Viector" (UAH 833,56M), which entered the top ten for the first time and were present in the portfolios of



fifteen funds. Present in the portfolios of five funds (including two non-venture ones where they were 4th by aggregate investments' volume (UAH 202,98M, Table 8), the equities of OJSC "Avanguardinvest" (UAH 773,35M) closed the trio of leaders.

Table 8. Most popular securities – by aggregate value in CII portfolios as of 31.12.2010

	Security type	Category	Issuer's name	Value of securities within CII assets, UAH
1	Promissory notes	common	LLC "Stanislavska Trading Company"	916 133 000
2	Corporate bonds	registered non-interest-bearing	LLC "Vyrobnychy Viector"	833 562 352
3	Equities	common registered	OJSC "Avanguardinvest"	773 352 970
4	Promissory notes	common	LLC "Tsentr Group 2008"	739 085 207
5	Promissory notes	common	OJSC "Ukrainian Innovation and Financial Company"	719 453 057
6	Equities	common registered	JSC "MNPК "VESTA"	681 675 168
7	Promissory notes	common	LLC "Fozzi Food"	628 593 097
8	Promissory notes	common	LLC "TSUP - Bucha"	614 852 113
9	Equities	common registered	OJS "UkrGazoTrade"	510 400 714
10	Equities	common registered	OJSC "OBK "Ofal"	495 645 428

In 2010, the equities of JSC "MNPК "VESTA" became the leader by the volume of investments of *non-venture funds* (UAH 610,24M, Table 9). These equities appeared on the TOP-10 for the first time and were present in the assets of three CII (including two non-venture ones). The second place went to PJSC "VO "Promtekhmontazh" (UAH 231,55M) present in the assets of four CII (including two non-venture ones). The bonds of the Cabinet of Ministers of Ukraine rounded out the trio of leaders (UAH 231,51M), with their presence registered in 169 CII (including 84 non-venture ones).

Top position in the P-10 securities, into which moneys of non-venture CII were invested, in 2010 was almost three times greater than in 2009 (UAH 610,242M vs UAH 202,19M), though the volume of investments into the equities of OJSC "Avanguardinvest", which had been the last year leader, remained virtually unchanged this year. An aggregate value of funds' investments into the P-10 popular securities went up from UAH 1 023,76 M to UAH 2 151,07M.

Table 9. Most popular securities – by aggregate value in non-venture CII portfolios as of 31.12.2010

	Security type	Category	Issuer's name	Value of securities within CII assets, UAH
1	Equities	common registered	JSC "MNPК "VESTA"	610 245 561
2	Equities	common registered	PJSC "VO "Promtekhmontazh"	231 550 590
3	Internal state loan bonds	interest-bearing bearer	Cabinet of Ministers of Ukraine	231 507 503
4	Equities	common registered	OJSC "Avanguardinvest"	202 976 785
5	Corporate bonds	registered special-purpose	LLC "Grad Invest"	176 430 930
6	Equities	common registered	PJSC "Spetsbudmontazh"	174 180 000
7	Promissory notes	common	LLC "Olimp-Development"	162 254 293
8	Equities	common registered	OJS "UkrGazoTrade"	135 760 067
9	Promissory notes	common	LLC "Lease Company "Professional Lease"	118 000 000
10	Equities	common registered	CJSC "Intercorn Corn Processing Industry"	108 165 073

In 2010, promissory notes remained **the greatest, by an aggregate value, type of securities** into which CII moneys were invested: investments into them comprised UAH 15 570,40M (37,73% of an aggregate CII portfolio). At that, the volume of investments into promissory notes, just as their share, increased (from UAH 13 694.13M., 33.17%), and so did the volume and the respective share of investments into equities (from UAH 14 169.93M (34.32%) to UAH 15 113.75M (36.63%) (Table 10).



Table 10. Value breakdown of an aggregate CII portfolio, by the types of securities, as of 31.12.2010

Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Promissory notes	15 570 400 663	37.73%
Equities	15 113 745 669	36.63%
Corporate bonds	9 529 105 655	23.09%
Mortgage securities	517 409 207	1.25%
Internal state loan bonds	452 977 494	1.10%
Savings certificates	36 900 000	0.09%
Other	43 109 854	0.10%
Total	41 263 648 543	100.00%

In non-venture funds equities again became the leader (UAH 4 848,78M, 77,30%) (Table 11).

Table 11. Value breakdown of an aggregate non-venture CII portfolio by the types of securities, as of 31.12.2010

Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	4 848 780 564	77.30%
Corporate bonds	565 333 619	9.01%
Promissory notes	513 278 277	8.18%
Internal state loan bonds	285 578 135	4.55%
Savings certificates	36 900 000	0.59%
Municipal bonds	21 168 283	0.34%
Other	1 875 303	0.03%
Total	6 272 914 180	100.00%

6. The Rate of Return of CII

Under conditions of extremely volatile, but, all in all, upward stock market dynamics in 2010, growth of investments value for the year was provided for by all types of CII. Other investment directions also were profitable, with exception of the real estate, which lost 10.5% in price.

Funds' rates of return exceeded the official inflation rate by 3-5 p.p. and 3-23 p.p. on average (venture CII – by 53 p.p.). For the period January 1 – December 31, 2010, *open-end CII* earned +12.7%, *interval CII* – +14.8%, and *close-end non-venture CII* – +32.5%. By average nominal rate of return, the latter outperformed deposits in gold (+32.3%), which, as a result of the lack of stability in the global markets and US dollar depreciation, were among the most wanted assets in 2010. *Venture funds* demonstrated rates of return at the level of 61.9% on average, traditionally, with an extremely broad range of individual funds' results (between -98% and over +4 800%) (Chart 8).

The rates of return of *open-end funds* and, to a certain extent, of *interval ones*, once again were affected by an earlier mentioned massive outflow of investors' moneys. The range of the rates of return of open-end CII in 2010 was between -52.2% and 35.6%, and by an average rate of return these funds, just as interval ones, were somewhat behind the deposits in Hryvnia. However, the interest rates on bank deposits, particularly in the national currency, this year dropped substantially (from 20-25% to 15-17% on annual deposit in UAH), and this tendency is expected to continue, which will eventually weaken their competitive position as an instrument of keeping and increasing savings.

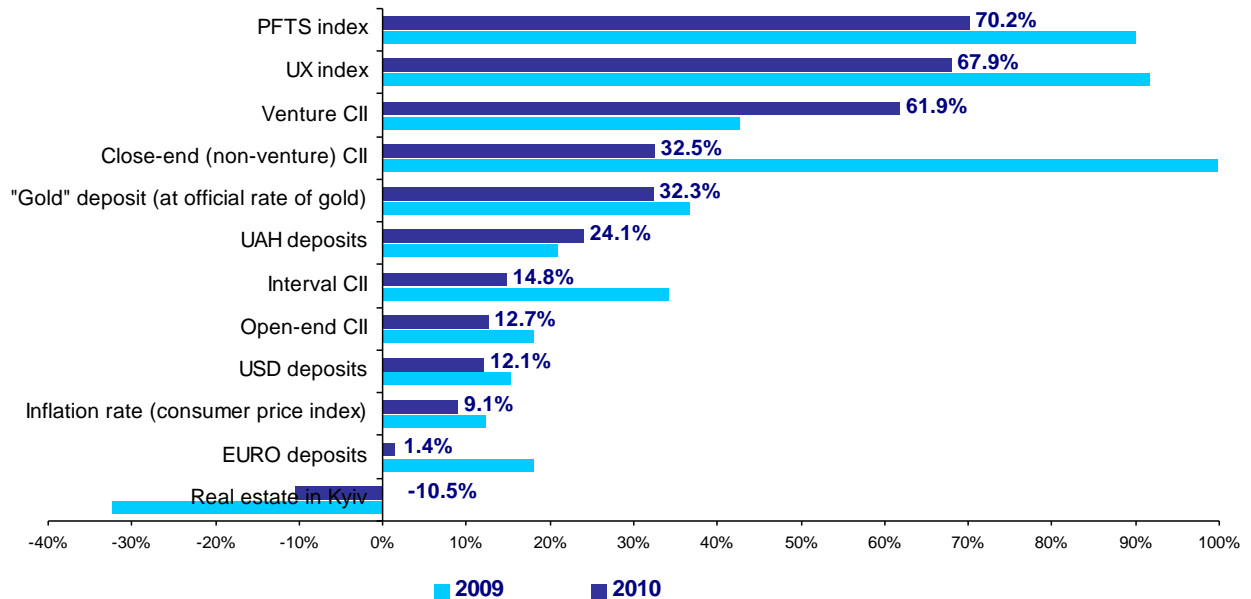


Chart 8. Average rates of return – CII, bank deposits, real estate, equity indexes and inflation rate in 2010¹

Deposits in euro (+1.4%) this time appeared among the outsiders by the rate of return in annual terms, which was associated with exchange-related problems of this currency resulting from the budgetary problems of a number of Euro zone states, which were among the key sources of international investors' worries throughout 2010.

Although consumer price index in 2010 officially was lower than in 2009 (9.1% vs 12.3% – December compared to December last year), funds of all types, with exception of venture ones, demonstrated a decrease in the average rate of return. However, that did not prevent them from "offsetting" inflation, as well as showing better results than the most popular investment directions.

7. The CII NAV Breakdown by The Types of Investors

In 2010, just as previously, *Ukrainian companies* remained the main category of investors (81.8% of an aggregate NAV). During the year, their share within funds' assets was decreasing, but in the last quarter grew, which was connected with the dynamics of venture and open-end funds.

In the non-venture CII on the whole the share of legal entities—residents decreased significantly (from 86.8% to 63.7%), as the participation of Ukrainian citizens in those funds underwent an analogous increase. The share of foreign citizens and companies—non-residents in all CII at year end comprised 14.8%, at that, their participation was the highest one in open-end (16.0%) and venture CII (15.4%), and the lowest – in interval ones (5.5%) (Table 12).

Table 12. CII NAV breakdown by the types of investors as of 31.12.2010, % of NAV

Funds	Legal entities		Natural persons	
	residents	non-residents	residents	non-residents
Open-end	25.37%	14.17%	58.62%	1.85%
Interval	39.95%	5.24%	54.57%	0.24%
Close-end (non-venture)	65.88%	8.25%	25.69%	0.19%
All (non-venture)	63.71%	8.36%	27.69%	0.24%
Venture	83.50%	15.40%	1.09%	0.01%
All	81.79%	14.80%	3.38%	0.03%

¹ The inflation rate provided is based on the State Statistics Committee data. Return on real estate is calculated based on Kyiv real estate value index (Source: <http://www.blagovest.ua>).



Natural persons-residents remained primary investors of **open-end funds** as of 31.12.2010 (58.6%), although their share decreased since year beginning (from 78.9%), as other categories of investors were more active in growing their investments, in particular, *national legal entities*, whose investments during the year more than doubled (share – from 11.7% to 25.4%), mainly during Q4.

The shares of *natural persons–non-residents* and *foreign companies* in open-end CII not only remained the greatest ones compared to other types of funds (1.9% and 14.2% accordingly), but also grew notably. That was due to high liquidity, as well as their proximity to foreign public funds, UCITS in particular, which belong to one of the key types of investment funds operating in Europe. However, redistribution of the shares of different investor categories in favor of non-residents was also promoted by a comparatively weak dynamics of the investments of Ukrainian citizens into these funds.

The main share in the NAV of **interval funds**, just as of open-end funds, as of 31.12.2010 belonged to *natural persons–residents* (54.6%), who this year regained the leadership (in 2009 their share comprised 24.8%). *Legal entities–residents*, whose share decreased from 75.2% to 40.0%, became second best group by the amount of investments into these funds. Companies–non-residents notably increased their presence in these funds, holding at 2010 end 5.2% of the assets (in 2009 – 0.001%).

Legal entities–residents continued holding most of the investments in **close-end non-venture funds**, though their share during the year dropped from 89.1% to 65.9%, despite the growth registered in Q4. The weight shift in these funds turned out to be to the benefit of *natural persons–residents*, who increased their contributions to close-end funds to the share of 25.7%.

Thus, due to the changes in interval and particularly close-end CII, Ukrainian citizens became main investors of non-venture funds that expanded their presence in 2010 from 4% to 27.7%.

In **venture funds**, the investments of legal entities–residents traditionally prevailed by volume and as of 31.12.2010 comprised 83.5% (year ago – 84.3%). A minor decrease of the share of national companies within these funds' assets was due to an increase of the participation of natural persons – residents (from 0.3% to 1.1%), which, evidently, resulted from appearance of the opportunity for citizens to enter these funds after amendments to the Law of Ukraine “On Collective Investment Institutions (Unit and Corporate Investment Funds)” had been enacted, though the said opportunity had been provided for since the beginning of 2009.

Finally, within an aggregate NAV of **all CII**, the share of *natural persons – residents* as of 2010 end grew to 3.38%, and most of investments into CII (81.8%) belonged to *Ukrainian companies*, which were most active contributors compared to other categories, in particular, in open-end funds.

8. NPF Under Management

The assets of NPF under AMC management in 2010 grew by 17.6% (in 2009 – by 19.31%, 2008 – by 85.13%) up to UAH 630.56M, and the number of NPF that made contracts with AMC for the first time decreased by 3.1% and comprised 93 funds (Table 13).

Just as previously, open-end NPF accounted for the lion's share of the pension funds' market both by the number of funds (74), and the value of assets (UAH 473.74M or 75.1%) (Table 13, Chart 9). At that, these funds also traditionally demonstrated the greatest asset growth (+23.2%), having kept last year's growth rate and having increased their market share.

Rest of the market was almost equally divided between corporate (13.5%) and professional (11.4%) pension funds.

Table 13. NPF assets under AMC management in 2010, by the type of funds

NPF type	Number of funds			Assets under management, UAH M			Share in aggregate NPF assets under management at 31.12.2010
	2009	2010	Yearly change	2009	2010	Yearly change	
Open-end	75	74	-1.33%	384.64	473.74	23.17%	75.13%
Corporate	11	10	-9.09%	84.19	84.92	0.87%	13.47%
Professional	10	9	-10.00%	67.39	71.90	6.70%	11.40%
Total	96	93	-3.13%	536.21	630.56	17.60%	100.00%

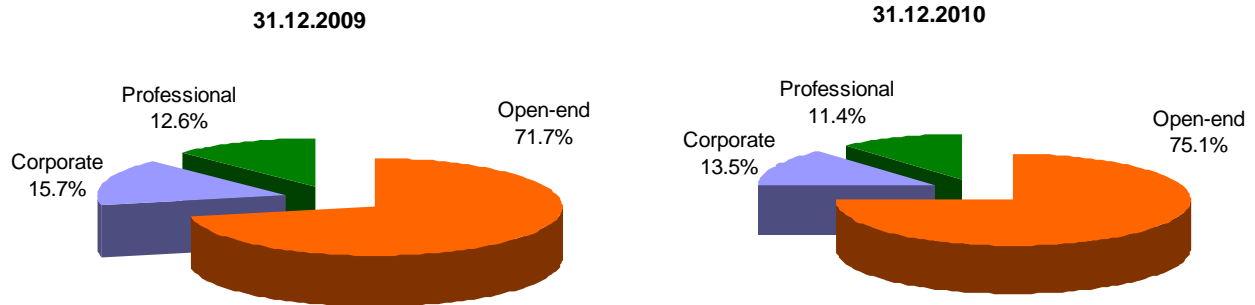


Chart 9. Distribution of aggregate NPF assets under AMC management by the type of funds at the beginning and at the end of 2010

The structure of NPF assets under AMC management underwent minor changes in 2010. The share of bank metals continued to decrease (from 5.9% to 5.0%). As for the dynamics of “other” assets and securities within the NPF asset structure in 2010 – it was opposite to the last year’s one, where the share of the former went down from 11.9% to 5.2%, and of the latter – went up from 47.1% to 51.6%, which could be regarded as positive changes. In the meanwhile, the liquidity of the aggregate NPF portfolio improved, as the share of moneys and bank deposits therein increased – from 32.3% to 35.3% (Chart 10).

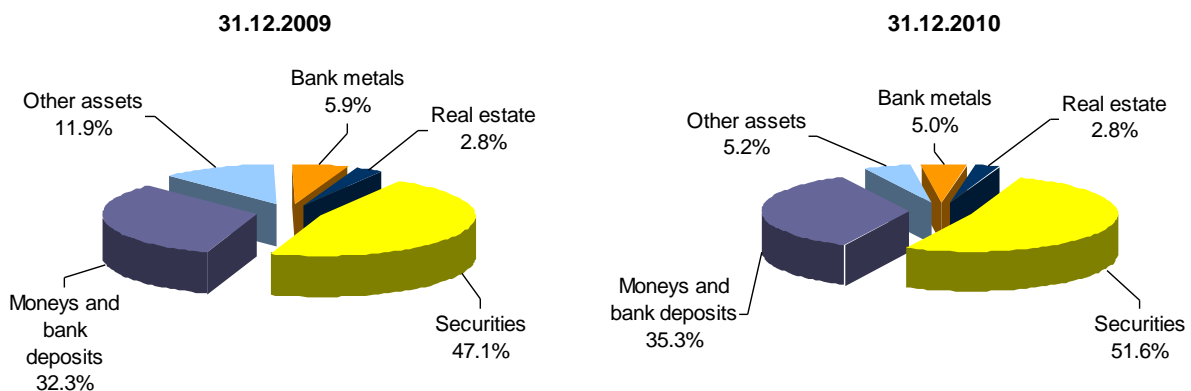


Chart 10. NPF asset structure at the beginning and at the end of 2010

9. Resume

Positive stock market trend that continued in 2010, supported the growth of the asset management market, and the CII market in particular. Whilst the number of AMC continued decreasing for the second year in a row, and some funds were liquidated, the total number of operating CII was increasing. Therefore, this year the tendency towards market concentration manifested itself.

Aggregate assets under management were also growing, at that, nearly at the same rate as in 2009. However, in 2010, an absolute growth of the asset and the net asset value notably exceeded the preceding year’s indicators (+31.0%, +UAH 25.59 bln. and +30.5%, +UAH 19.28 bln. respectively). It is important to note that over 99% of the said growth was provided for by close-end funds (90.7% – venture ones).

Market expansion was also supported by an increase in the number of funds, which reached compliance with the standards, as well as by additional contributions on the part of CII investors. New participants and a net inflow/ outflow of capital became the key drivers of the changes of an aggregate NAV of the open-end CII during the year, though the latter was often associated with individual funds only and was not indicative of a general stable tendency.



The assets and NAV of venture funds continued being in an uptrend, as the number of funds included into the calculation base and investments were increasing. Although the share of venture CII within the aggregate AV and NAV decreased, it still comprised above 91%. In the meanwhile, among the funds that had reached compliance with the standards they constituted less than 76%, which confirms a greater scale of venture funds compared to other CII categories.

Most dynamic growth in 2010 was demonstrated by the segment of close-end non-venture CII. The dynamics of open-end and interval funds was significantly more reserved, as conditioned by the movement of the contributions from investors, who would withdraw substantial amounts of moneys from the funds during the indexes' drawdowns, attempting to avoid losses and, after their long-term and quick growth – in order to take profit. Annual growth of non-venture funds' assets reached UAH 2.38 bln. (36.5%).

Among the distinctive tendencies of 2010 were an increase of the share of investments of national companies and non-residents in open-end funds, and an exit of natural persons–residents from the said funds. Therefore, on the one hand, foreigners are aimed at longer-term investments, which eliminates periodic fluctuations in the securities markets and “postpones” the tax burden on investment income, which in Ukraine is significantly higher for non-residents than for domestic investors. On the other hand, naturally, legal entities faster respond to the changes of trend in the equity market, more efficiently using growth phases and returns that funds can generate.

However, in view of a weak dynamics of the real income of the population, need in the search of advantageous directions and instruments for the investments of households' savings, as well as an inevitable decrease in the rates of return on deposits, which had already been observed in 2010, the collective investment institutions, of open-end type in particular, will continue to attract more and more attention of our population.