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1. The Stock Market

Q3 2011 turned out to be the hardest time for the global stock markets since the crisis of 2008. It is in July-September that significant forecasted threats realized, which stirred up international markets and replaced relatively moderate dynamics of Q1-2 by downtrend with high volatility.

In July investors were positive disposed, as favorable macrosignals were incoming and governments and central banks were acting. Among those an increase of the employment level in the US and the FRS intention to keep the base interest rate at the lowest possible level for two more years, as well as another increase of the ECB base interest rate as a sign of a certain improvement of an overall economic situation in Europe, should be mentioned. From time to time upward correction was provoked by the news on ban of "short" sales on the exchanges in a number of EU states, expansion of the European Financial Stability Fund (EFSF), and EU readiness to grant financial aid to the states – main debtors of the Euro zone that were implementing strict fiscal policy programs etc.

Despite all of the above, pessimism prevailed in the market since August start and until quarter end. US failure in addressing the problem of government borrowings, which exceeded legislatively established threshold, shocked investors all around the globe and resulted in an adequate action on the part of the rating agencies, namely, credit ratings' downgrades.

The same concerned Southern states of the Euro zone, where catastrophic consequences of budgetary deficit increase were revealing and social tension was growing. They were also among the key newsmakers that determined direction of the global stock indexes' movement during that time period.

An additional pressure on the markets was exercised by the news from one of the greatest world economies – China – where inflation sped up to the highest level over three last years and economic growth continued to slow down.

Finally, expert forecasts as regards global growth in 2011 and 2012 in September were lowered compared to June from 3% and 3.4% to 2.6% and 2.8% respectively. Expectations as regards emerging markets remained higher owing to China and India, though even their stock markets in Q3 demonstrated a decline, which became most rapid one since year 2008 and also fell to the lowest since 2011 beginning.

*Table 1. National markets' stock indexes in Q3 and since the beginning of 2011**

Indexes	31.12.2010	30.06.2011	30.09.2011	Q3 2011 change	Change since 2011 beginning
NIKKEI 225 (Japan)	10 228.92	9 816.09	8 700.29	-11.37%	-14.94%
DJIA (USA)	11 577.51	12 414.34	10 913.38	-12.09%	-5.74%
FTSE 100 (Great Britain)	5 899.94	5 945.71	5 128.48	-13.74%	-13.08%
S&P 500 (USA)	1 257.64	1 320.64	1 131.42	-14.33%	-10.04%
SHANGHAI SE COMPOSITE (China)	2 808.07	2 762.08	2 359.22	-14.59%	-15.98%
MICEX (Russia)	1 687.99	1 666.59	1 366.54	-18.00%	-19.04%
HANG SENG (Hong Kong)	23 035.45	22 398.10	17 592.41	-21.46%	-23.63%
WSE WIG 20 (Poland)	2 744.17	2 802.01	2 188.73	-21.89%	-20.24%
CAC 40 (France)	3 804.76	3 982.21	2 981.96	-25.12%	-21.63%
DAX (Germany)	6 914.19	7 376.24	5 502.02	-25.41%	-20.42%
RTS (Russia)	1 770.28	1 906.71	1 341.09	-29.66%	-24.24%
PFTS (Ukraine)	975.08	895.01	562.32	-37.17%	-42.33%
UX (Ukraine)	2 443.70	2 311.87	1 442.73	-37.59%	-40.96%

* Based on the data of exchanges and Bloomberg Agency



Over July – September, key global equity indexes lost between 11.37% (Japan) and 25.41% (Germany), and over nine months of 2011 – between 5.74% (USA) and 23.63% (Hong Kong, China). Russian indicators (-18.00%, -29.66%) together with the Ukrainian peers remained among the main outsiders (Table 1, Chart 1).

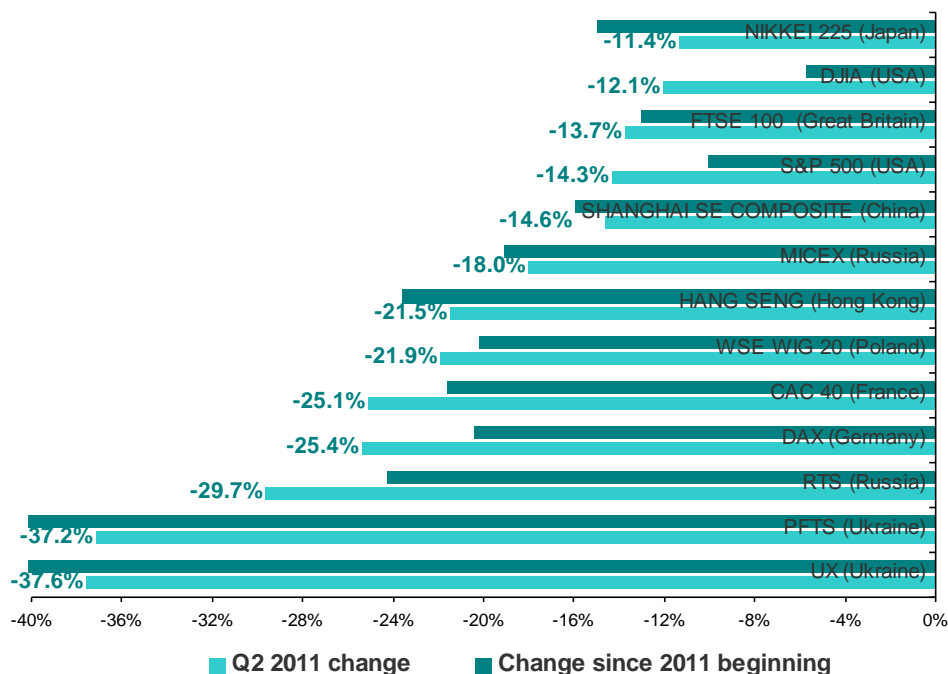


Chart 1. National markets' stock indexes' dynamics in Q3 and since the beginning of 2011*
* Based on the data of exchanges and Bloomberg Agency

Ukrainian stock market indicators in Q3 substantially repeated the behavior of their peers from well-developed markets: a mild “sideways” trend of July was replaced by a downfall in August and a moderate downward movement in September.

In the meanwhile, characteristically of Ukraine, indexes' decline here turned out to be 1,5-3 times deeper compared to the developed markets. According to the Ukrainian Exchange data, national equities lost 25% only during the first decade of August. At that, the market downfall was not accompanied by a mass sale of the stakes in Ukrainian companies, the number of trades and the volumes of equity trading in which during the said month declined – by 24.20% and 14.74% respectively. Also, in Q3 equities were traded on UX 17.02% less actively, and all securities – 17.11% less actively. On PFTS, where major trading has been concentrated in OVDP sector, an aggregate value of the trades in equities over the quarter also declined – by 5.73%. That could be sign of either an earlier exit of the majority of speculative investors from the market, or of an uncertainty of the market's sustained decline.

All in all, UX index over Q3 went down by 37.59%, and PFTS index – by 37.17%, which exceeded the losses of crisis Q1 2009.

Since the beginning of 2011, PFTS and UX indexes lost 42.33% and 40.96% respectively.

2. The Number of AMC and CII

In Q3 2011, according to the UAIB data, the number of asset management companies in Ukraine dropped for the first time since Q4 2010, but remained higher than at year beginning. The process of exiting from the business by a part of AMC, among which were those that had exhausted their strength reserve as a result of long-term operation in the market, or had entered it under unfavorable circumstances, continued. New companies were also established, though there were fewer of them. The total number of AMC decreased by two companies over the quarter. Finally, as of 30.09.2011, there were 345 asset management companies – UAIB members, with 4.10 investment funds per each on average. On the whole, AMC were managing assets of 1415 CII (Chart 2).

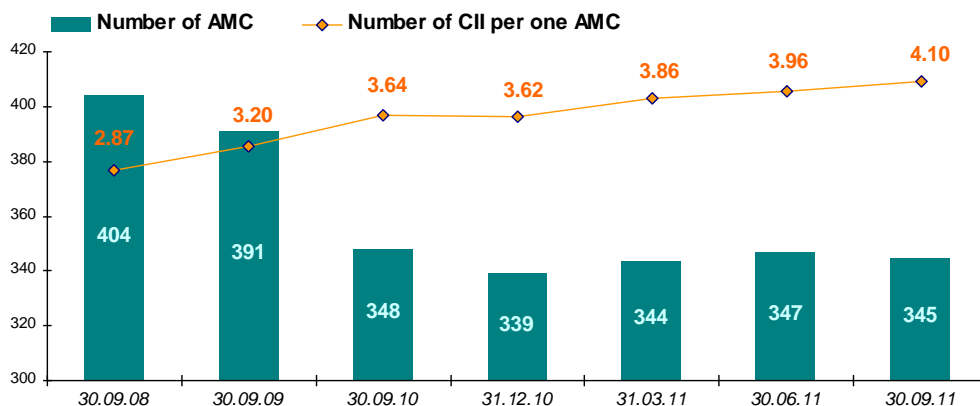


Chart 2. Dynamics of the number of AMC and CII per one AMC

Therefore, in Q3 2011 the number of registered CII again increased, though at a slowing down pace (+40 funds compared to +47 in Q2 2011). At that, 11 funds were liquidated during the quarter, and 18 more funds made decision to close.

Growth of the number of CII that formed minimal normative asset volume significantly accelerated in Q3 (+28 funds compared to +11 in Q2). As of 30.09.2011, 1206 collective investment institutions reached compliance with the standards and were in operation (Table 2).

Improvement of the dynamics of the number of recognized funds was due to slowing down CII liquidation pace started in Q1 2011, as well as to a simultaneous increase in the number of new funds registered, particularly, in January–March.

Table 2. Dynamics of the number of CII that reached compliance with the standards in Q3 2011

	Total	UIF					CIF		
		O*	*	CD*	CNN*	CNV*	*	CNN*	CNV*
31.12.2010	1095	36	48	9	32	755	2	141	72
31.03.2011	1167	40	49	9	33	809	2	134	91
31.06.2011	1178	42	47	9	36	822	2	130	90
30.09.2011	1206	43	47	10	39	844	2	127	94
Q3 2011 change	2.38%	2.38%	0.00%	11.11%	8.33%	2.68%	0.00%	-2.31%	4.44%
Change since 2011 beginning	10.14%	19.44%	-2.08%	11.11%	21.88%	11.79%	0.00%	-9.93%	30.56%

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

The greatest relative growth in Q3 was demonstrated by the sector of close-end diversified UIF¹ (+11.11%), though the quantity of such CII increased by one fund only. In absolute value terms, venture UIF remained the leader (+22 funds, +2.68%), with 9 funds liquidated during the quarter.

The sector of open-end funds again had addition thereto, although by one recognized participant only (+2.38%) that had been registered by Q1 end. Simultaneously, in addition to two funds that had started liquidation earlier and one that informed on such plans during this quarter, one more would stop operations soon due to an exit of the AMC, which had been managing it, from the market. Furthermore, in view of the registration of only one open-end fund by June end and an absence of similar action in Q3, as well as presence of 11 funds whose asset value at 30.09.2011 is below the standard for minimal volume, the probability of decrease in the number of open-end CII until 2011 end is getting higher.

In the sector of close-end non-diversified CIF in Q3, the quantity of funds continued decreasing (-2.31%, -3 funds), 8 funds informed of their decision to liquidate.

The quantity of venture CIF, unlike during three preceding months, during this period increased (+4.44%, +4 funds), same tendency being observed among close-end non-diversified UIF (+8.33%, +3 funds), where two already operating CII started liquidation procedure.

All in all, as of 30.09.2011, 23 funds, among which there were 10 venture UIF, announced their decision to liquidate. The quantity of registered CII being at the stage of asset formation in Q3 for the first time decreased– from 197 to 195.

¹ UIF is a CII in a form of a unit (share) investment fund as opposed to CIF which is a corporate investment fund.



3. The Regional Distribution of AMC and CII

Kyiv and Kyiv region remained leaders in Q3 2011 (Chart 3). Just as during the previous quarter, 243 asset management companies were in operation here, at that, again 4 AMC entered the market, but 4 AMC exited therefrom. As a total number of AMC in Ukraine was decreasing, the share of Kyiv region increased yet again – from 70.03% to 70.43%.

Along with Kyiv, the greatest concentration of asset management business was preserved in South-Eastern regions, although their share somewhat decreased due to closure of two AMC in Dnipropetrovsk region, whose share went down from 7.78% to 7.25%. With the quantity of companies remaining unchanged, the shares of all other regions with operating AMC grew: in Kharkiv region – from 6.05% to 6.09%, Donetsk – from 3.75% to 3.77%, and Odessa – from 2.88% to 2.90%.

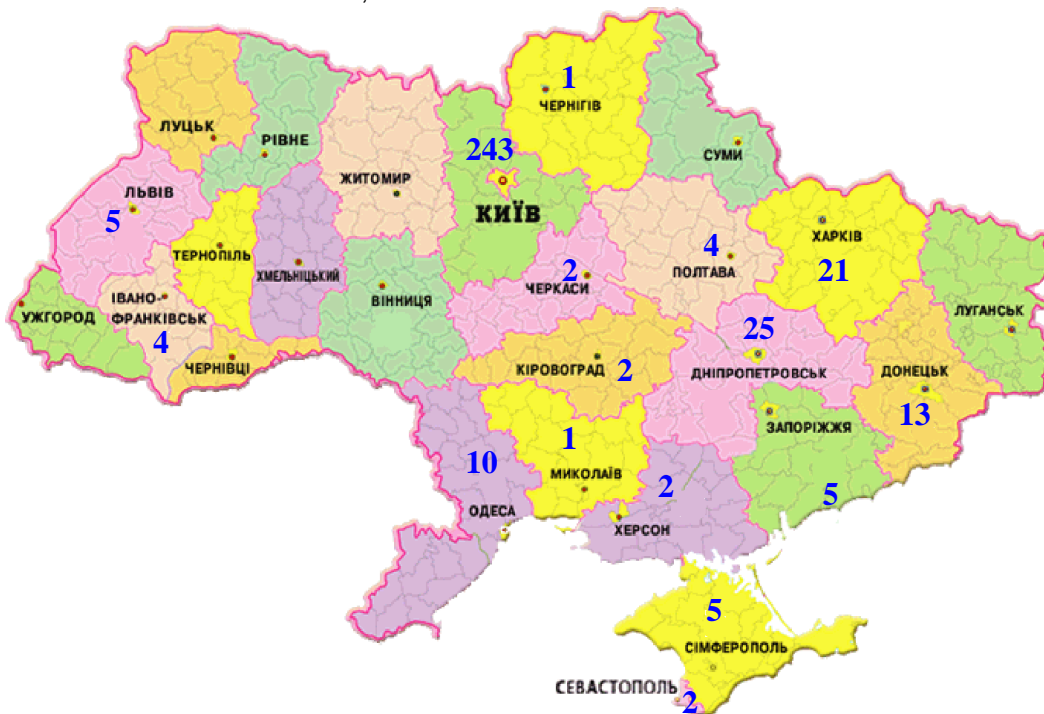


Chart 3. Regional distribution of AMC number as of 30.09.2011

The nature of the regional distribution of CII under AMC management in Q3 changed noticeably. The shares of all regions – leaders narrowed, in particular, of Kyiv and region – from 71.77% to 70.31%, Dnipropetrovsk and region – from 8.64% to 7.92%. In the meanwhile, the other regions' number of funds and their respective shares within an aggregate number of CII in Ukraine grew from 8.26% to 10.66%, mostly owing to Zaporizhzhya (from 1.30% to 3.01%) and Poltava (from 0.74% to 1.55%) regions.

The regional distribution of CII AuM changed similarly, with exception of Donetsk region, whose share within the aggregate assets grew from 5.01% to 6.61%, with CII number remaining unchanged and the region's share decreasing by the said parameter. The share of Kyiv somewhat narrowed – from 72.84% to 72.41%, of Dnipropetrovsk region – once again quite significantly – from 12.00% to 10.31% (Chart 4).

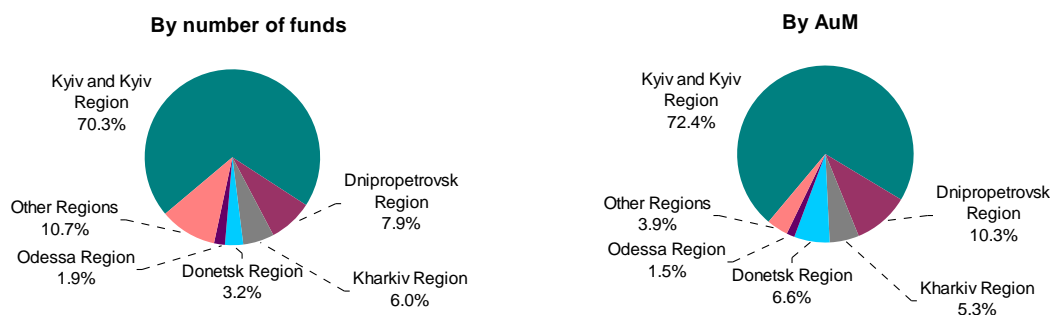


Chart 4. Regional distribution of CII by the number of CII and the value of their assets under management, as of 30.09.2011



4. The Asset and The Net Asset Value of CII

In Q3 2011, the dynamics of CII assets was extremely negative, as the stock market decline continued. Only the sectors of venture and close-end non-venture funds managed to avoid decrease, though the number of the latter remained almost unchanged.

An increase of the assets of *venture CII* (+UAH 2 207.54M, +2.07%) was almost the same as for the three preceding months, which confirms a virtually absent correlation of the sector with stock market trends, whilst *close-end non-venture funds*, after Q1 decrease, resumed an active growth (+UAH 1 622.02M, +20.15%). Almost half of the asset value growth in the sector of close-end CII was due to portfolio revaluation. This is a sign of a significantly different value dynamics of the securities held by these funds compared to the “blue chips” one.

All in all, despite a more rapid downfall observed in the securities market this quarter, all CII asset value grew much more than in Q2 – by UAH 3 756.51M, or 3.26% (against UAH 1 552.70M, +1.37%). Therefore, aggregate **total assets** once again set a record – UAH 118 867.04M as of 30.09.2011. All non-venture CII assets reached UAH 10 132.42M, in other words, grew by UAH 1 548.98M (+18.05%) and solely due to close-end funds (Table 3, Chart 5).

Table 3. Dynamics of the asset value (AuM) of CII, by the types of funds in Q3 2011, UAH M

Funds	31.12.2010	31.03.2011	30.09.2011	Q3 2011 change	Change since 2011 beginning
Open-end	286.07	310.03	268.01	-13.55%	-6.31%
Interval	252.53	224.82	193.81	-13.79%	-23.25%
Close-end (non-venture)	8 351.82	8 048.58	9 670.60	20.15%	15.79%
All (non-venture)	8 890.41	8 583.44	10 132.42	18.05%	13.97%
Venture	96 976.17	106 527.09	108 734.63	2.07%	12.13%
All (venture included)	105 866.59	115 110.53	118 867.04	3.26%	12.28%

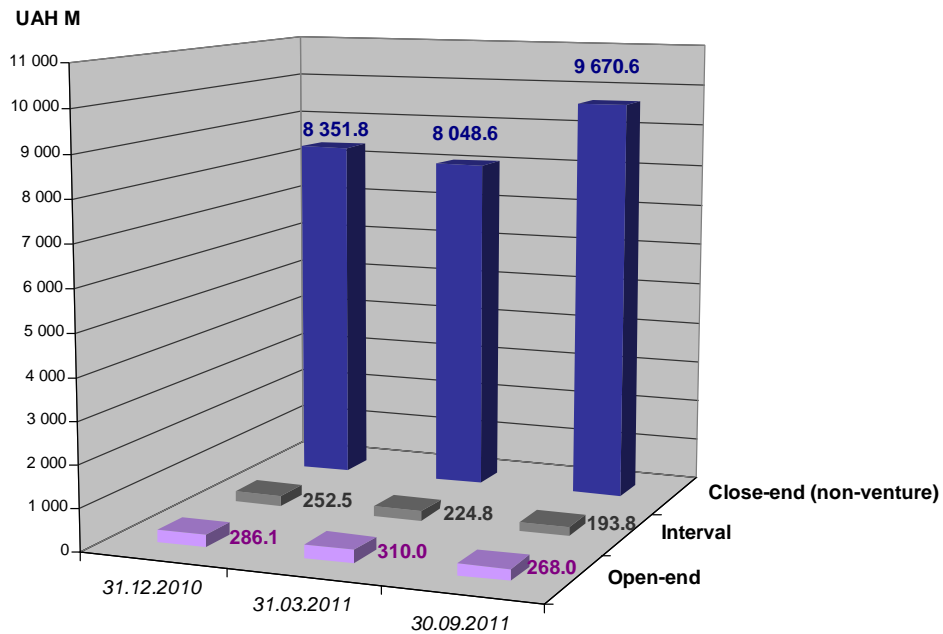


Chart 5. Dynamics of the asset value (AuM) of non-venture CII in Q3 2011 and since the beginning of 2011

After narrowing of the sector of interval funds in Q2, in Q3 the sector of *open-end CII* rapidly decreased and demonstrated a decrease since the beginning of 2011, completely neutralizing Q1 2011 growth (-UAH 42.02M, -13.55% in Q3, -UAH 18.06M, -6.31% for 9 months of 2011). That was accompanied by a net outflow of investments in amount UAH 17.43M (after an inflow of UAH 18.36M in Q2), the main part of which was registered in August. Downtrend was “backed up” by nearing liquidation of several funds.



The assets of a new market participant had a minor effect on the situation, as they comprised less than 1% of the aggregate sector assets (UAH 268.01M).

Interval CII, whose assets reached UAH 193.81M, once again demonstrated the greatest relative asset value decrease over quarter, similar to the previous one (-13.79%, -UAH 31.01M).

As a result of differently directed dynamics of different types of non-venture funds in Q3, the share of close-end funds significantly increased, in particular, among non-venture CII (from 93.77% to 95.44%); the share of open-end ones decreased by almost one percentage point (to 2.65%), and of interval ones – went down below 2% (from 2.62% to 1.91%) (Chart 6).

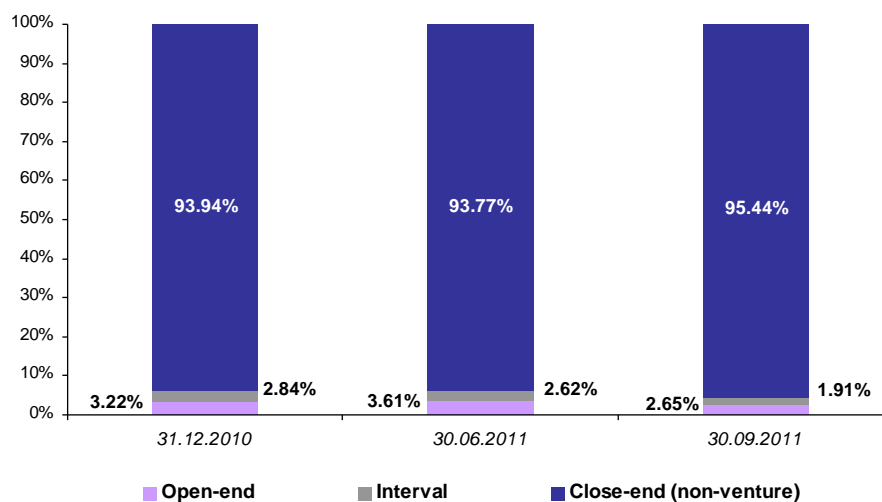


Chart 6. Dynamics of the non-venture CII asset value (AuM) breakdown in Q3 and since the beginning of 2011

Over 9 months of 2011, only close-end funds managed to preserve asset value growth – both venture (+UAH 11 758.45M, +12.13%) and non-venture ones (+UAH 1 318.78M, +15.79%). Thus, the total assets of all non-venture sector funds (open-end, interval and close-end ones) over that period grew by UAH 1 242.00M, or 15.79%. At that, the sector of interval CII in this quarter again remained an outsider by asset dynamics since year beginning (-UAH 58.72M, -23.25%).

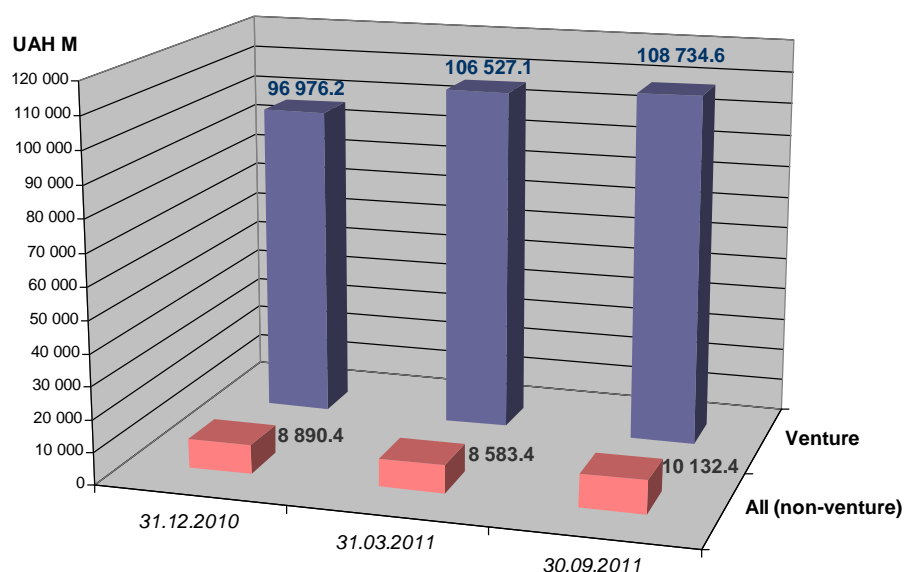


Chart 7. Dynamics of the asset value (AuM) of venture and non-venture CII in Q3 and since the beginning of 2011



Due to a significantly faster growth of close-end non-venture CII assets compared to the venture ones', the share of the latter within the aggregate assets of CII market in Q3 narrowed from 92.54% to 81.48%, whilst the share of the former grew to 8.14%, having offset the decrease of Q2 (from 7.77% to 6.99%) (Chart 8).

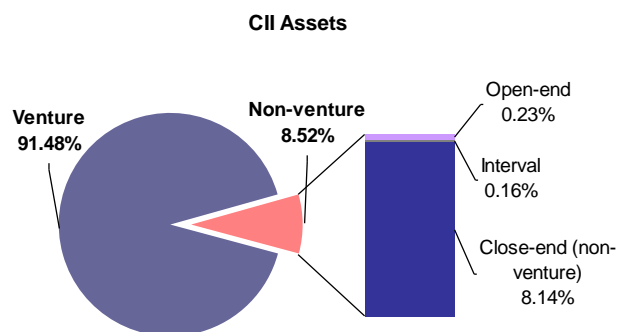


Chart 8. CII asset value (AuM) breakdown as of 30.09.2011

The dynamics of the **net assets** of the majority of CII types in Q3 2011 virtually repeated the changes in the total assets, with exception of *venture funds*, whose NAV dropped after significant growth over three preceding months (-UAH 1 096.04M, -1.14%, to UAH 94 821.97M). Therefore, an increase of the venture sector assets occurred solely owing to an increase of the funds' financial liabilities. An aggregate CII NAV as of Q3 end comprised UAH 104 287.85M (Table 4).

Table 4. Dynamics of the net asset value of CII, by the types of funds in Q3, UAH M

Funds	31.12.2010	30.06.2011	30.09.2011	Q3 2011 change	Change since 2011 beginning
Open-end	281.35	305.99	263.72	-13.81%	-6.26%
Interval	245.22	219.81	188.42	-14.28%	-23.16%
Close-end (non-venture)	7 775.72	7 418.10	9 013.74	21.51%	15.92%
<i>Non-venture</i>	8 302.29	7 943.91	9 465.88	19.16%	14.02%
Venture	86 439.05	95 918.01	94 821.97	-1.14%	9.70%
All (venture included)	94 741.33	103 861.92	104 287.85	0.41%	10.08%

Open-end funds for the first time in 2011 demonstrated quarterly decrease of the aggregate NAV (-UAH 42.27M, -13.81%), which as of 30.09.2011 reached UAH 263.72M. It was a natural result of the stock indexes' drop and of the material net outflow, which had been mentioned earlier and which made up to over 41.23% of the said net asset value decrease and 5.62% of the sector NAV decrease as of quarter beginning. Since the beginning of 2011, open-end funds experienced an aggregate net asset drop by UAH 17.62M (-6.26%) at a net outflow of UAH 12.48M.

The net assets of *interval CII* demonstrated almost the same pace of decrease as in Q2 (-UAH 31.39M, -14.28%), the quantity of this type of funds remaining unchanged. Their aggregate NAV at quarter end reached UAH 188.42M.

The NAV of *close-end non-venture CII* as of 30.09.2011 reached record-breaking level of UAH 9 013.74M, having increased by UAH 1 595.63M, or 21.51% (after 8.06% decrease in the preceding quarter). That provided for the sector growth since 2011 year beginning in amount UAH 1 238.02M.

As a result, the net assets of all non-venture funds in Q3 grew by UAH 1 521.97M (+19.16%), and over nine months – by UAH 1 163.60M (+14.02%).

Venture CII NAV decrease, coupled with other close-end funds' growth, resulted in a minor growth of the aggregate net assets in all CII in Q3 (+UAH 425.93M, or +0.41% against 2.21% in Q2).

In January – September 2011, due to net asset growth in close-end funds, including venture ones (+UAH 8 382.92M, +9.70%), aggregate market NAV sustained growth at the level of +UAH 9 546.52M, +10.08%.



Distribution of the net assets of non-venture CII by the types of funds changed similarly to the total assets – in Q3 the share of close-end funds grew from 93.38% to 95.22%, and of open-end and interval ones – decreased from 3.85% to 2.79% and from 2.77% to 1.99% accordingly (Chart 9).

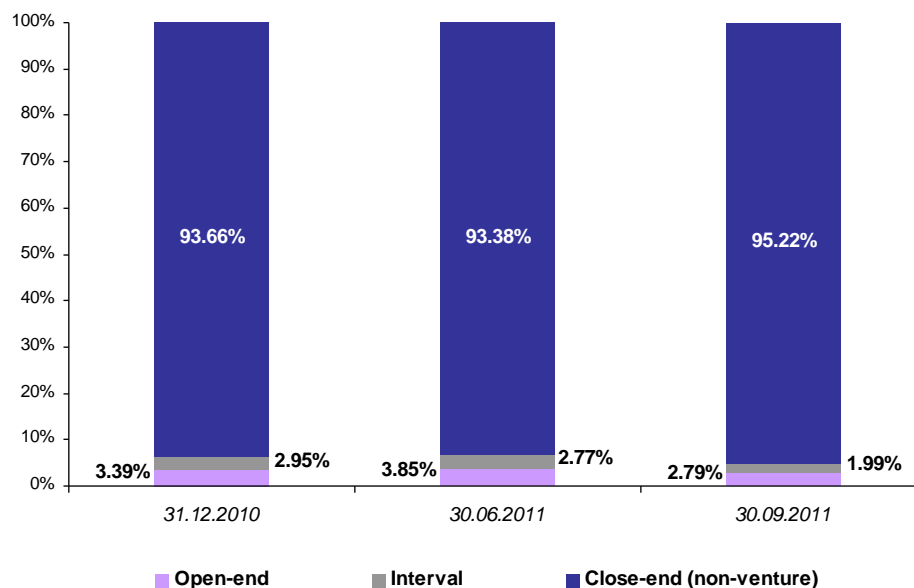


Chart 9. Dynamics of the distribution of non-venture CII NAV by the types of funds in Q3 and since the beginning of 2011

Within the structure of the net assets of all types of CII, venture funds had a somewhat smaller share than within the total assets, at that, it decreased in Q3 as their net asset value was decreasing and non-venture close-end funds were rapidly growing, which led to an increase of the latter's share from 7.14% to 8.64%). In the meanwhile, the share of venture CII remained higher than 90% - a stable trend of the whole period of CII market development (Chart 10).

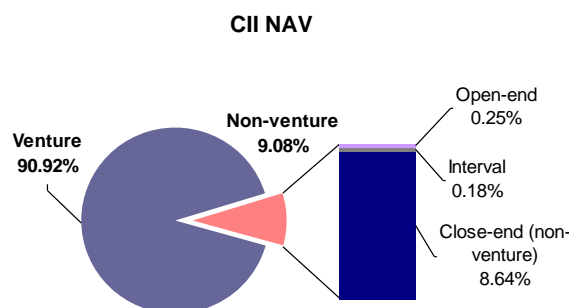


Chart 10. Non-venture CII NAV breakdown by the types of funds as of 30.09.2011

5. The Asset Structure of CII

In Q3 2011, the dynamics of the structure of CII aggregate portfolios **by the types of instruments** demonstrated that the share of securities in all types of funds continued to narrow, although this time venture CII managed to avoid that. In the meanwhile, unlike in open-end and interval funds, the value of investments into stock market instruments within the assets of *close-end non-venture CII* grew by UAH 429.36M (into equities – by UAH 459.12M). At that, their share within the aggregate portfolio of the said type of funds narrowed most among non-venture CII – by 7.13 p.p. (from 66.71% to 59.58%), whilst investments into “other assets” grew by UAH 1 307.11M (Chart 11).

The securities' share within the structure of consolidated investments of all non-venture CII narrowed from 66.50% to 59.67% (after a decrease from 68.51% in Q2). Contrary to that, in absolute value terms, these investments grew by UAH 375.50M in aggregate (after a decrease by UAH 790.28M in Q2). At that, the value of non-venture CII investments into equities grew by UAH 419.28M.

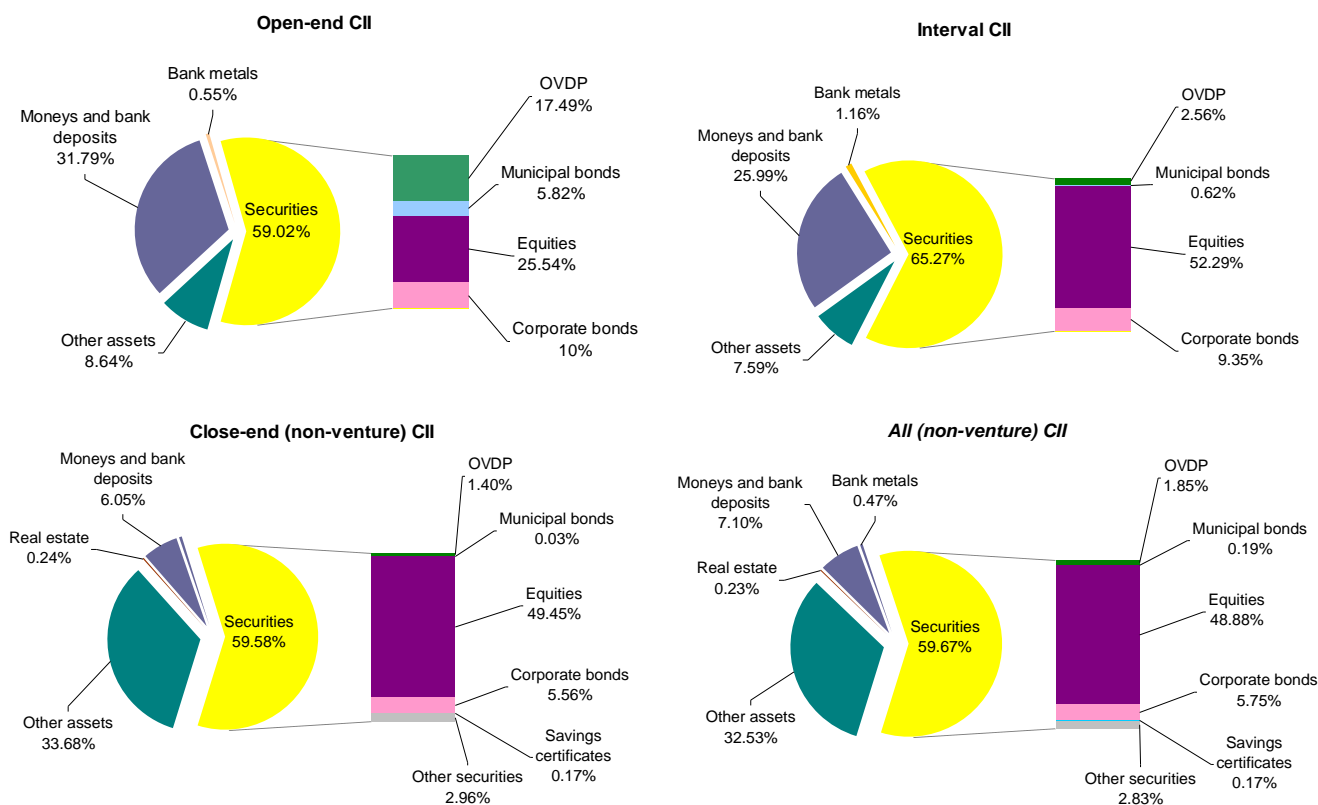


Chart 11. Non-venture CII asset structure, by the types of funds as of 30.09.2011

In *open-end CII*, just as in Q2, equities were the key driver of decrease of an aggregate value of investments into stock market instruments, though other securities also narrowed their presence within the aggregate portfolio of that CII type. Similar situation was observed in case of *interval funds* as well.

As regards the investments into government and municipal securities, in Q3, unlike in Q2, they demonstrated differently directed dynamics in the aggregate portfolios of all types of funds, including venture ones'. For instance, in spite of decrease of the value of investments into OVDP in open-end and interval CII, their share in the respective portfolios increased, just as in close-end non-venture funds, where the amount of investments into these securities grew by UAH 44.30M.

The securities of municipalities narrowed their presence in all types of non-venture CII both in monetary and relative value terms. Most serious cuts of investments into municipal bonds were done by open-end funds – by UAH 5.33M.

The key changes in the structure of the aggregate investment portfolios of different CII types in Q3 2011 are provided below.

Open-end funds

Increase of the value of investments into:

- internal state loan bonds – from 16.28% to 17.49%;
- bank metals – from 0.38% to 0.55%;
- “other assets” – from 6.77% to 8.64%;
- moneys and bank deposits – from 31.23% to 31.79%.

Decrease:

- local loan bonds – from 6.75% to 5.82%;
- equities – from 28.36% to 25.54% (more than two times decrease compared to Q1 2010 when the equities' share comprised 52.10%);
- corporate bonds – from 10.24% to 10.16%.

**Interval funds****Increase:**

- internal state loan bonds – from 2.45% to 2.56%;
- bank metals – from 0.64% to 1.16%;
- corporate bonds – from 7.76% to 9.35%;
- “other” securities – from 0.36% to 0.45%.

Decrease:

- equities – from 54.14% to 52.29%;
- local loan bonds – from 0.90% to 0.62%;
- moneys and bank deposits – from 26.13% to 25.99%.

Close-end (non-venture) funds**Increase:**

- “other” assets – from 24.49% to 33.68% (after growth from 23.62% in Q1);
- bank metals – from 0.002% to 0.46%;
- internal state loan bonds – from 1.15% to 1.40%.

Decrease:

- equities – from 54.10% to 49.45%;
- moneys and bank deposits – from 8.50% to 6.05%;
- “other” securities – from 5.51% to 2.96%.

Growth of the share of moneys in open-end funds, which for the second quarter in a row was the greatest one within these CII aggregate portfolio, demonstrated their concentration on liquidity issue in Q3, when stock market was falling and mass movement of investors' moneys was observed, as the latter were mainly withdrawing their funds.

Just as in Q2, this time the share of “other” assets within the assets of non-venture CII also increased, with exception of interval CII, where it underwent a minor decrease (from 7.62% to 7.59%).

In **venture CII** the situation was developing in an opposite direction: both the value and the share of investments into OVDP decreased, and into the debt securities of municipalities – increased. However, both investment directions mentioned remained tiny compared to the other asset components of these funds and did not significantly change their positions during Q3. In the meanwhile, the share of equities grew and made those instruments third in size within the non-venture funds' assets (Chart 12).

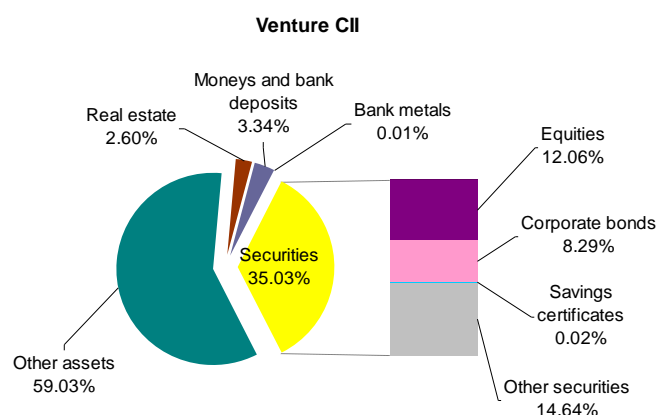


Chart 12. Venture CII asset structure as of 30.09.2011

Unlike during three preceding months, in July – September venture CII assets grew due to addition of securities in amount of UAH 2 644.22M, which brought to an expansion of their share from 33.28% to 35.03% (after narrowing from 34.93% in Q2). That was primarily due to equities (+UAH 1 479.12M), the investments into which grew much faster than the value of the other instruments and, as a result, of the aggregate venture CII assets.



“Other” assets, in spite of remaining the key asset component of venture funds, in Q3 2011, not typically for these CII, decreased both in value terms and in terms of correlation with the rest of the components (-UAH 510.01M after +UAH 3 014.57M in Q2).

All in all, the key changes within the structure of an aggregate venture CII portfolio were as follows:

Increase:

- equities – from 10.92% to 12.06%;
- corporate bonds – from 7.98% to 8.29%;
- “other securities” – from 14.27% to 14.64%;

Decrease:

- “other assets” – from 60.75% to 59.03%;
- savings certificates – from 0.09% to 0.02%.

In Q3, just as in two preceding quarters, equities were **the greatest, by an aggregate value, type of securities** into which CII moneys were invested, which was due to an increase of investments into them by close-end funds (including venture ones). The total amount of CII moneys invested into equities at quarter end reached UAH 18 217.35M (+UAH 1 845.16M), and their share within the aggregate securities portfolio of all funds grew (from 39.12% to 40.63%) (Table 5).

Table 5. Value breakdown of CII aggregate securities portfolio, by the types of instruments, as of 30.09.2011

Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	18 217 347 113	40.63%
Promissory notes	16 030 717 720	35.75%
Corporate bonds	9 806 707 382	21.87%
Mortgage securities	386 190 989	0.86%
Internal state loan bonds	311 198 330	0.69%
Savings certificates	36 900 000	0.08%
Municipal bonds	35 355 092	0.08%
Other	11 034 310	0.02%
Total	44 835 450 935	100.00%

An aggregate value of investments into promissory notes also increased (up to UAH 16 030.72M, +UAH 599.52M), but, unlike in Q2, the share of this instrument within the aggregate portfolio decreased – from 36.87% to 35.75% – due to outrunning dynamics of the investments into equities.

In Q3, equities remained the greatest component of investments into the securities portfolios of **non-venture funds**. Their share within the aggregate value of stock market instruments held by open-end, interval and close-end (non-venture) CII grew from 79.95% to 81.93%, having exceeded Q1 indicator, and in monetary terms comprised UAH 4 987.34M (Table 6).

Table 6. Value breakdown of non-venture CII aggregate securities portfolio, by the types of instruments, as of 30.09.2011

Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	4 987 335 043	81.93%
Corporate bonds	586 147 071	9.63%
Promissory notes	288 096 261	4.73%
Internal state loan bonds	188 303 925	3.09%
Savings certificates	16 900 000	0.28%
Municipal bonds	19 672 358	0.32%
Other	805 442	0.01%
Total	6 087 260 099	100.00%



Mortgage securities and promissory notes, as well as government bonds (interest-bearing bearer – 210 funds, non-interest-bearing bearer - 12, registered – 11) and Ukrainian equities from the first tier of listing were **most popular securities by their presence** in the assets of CII (quantity of funds holding them) in Q3 2011 (Table 7).

The promissory notes of LLC VKF “Pobutservice”, which in Q2 had been second (296 funds), in Q3 exited from the TOP-10 and generally all CII investment portfolios. The mortgage securities of PrJSC “ZZBK named after Svitlana Kovalska” also left the list of most popular securities, and as of 30.09.2011 were held by 52 CII only (after 184 in Q2).

In the meanwhile, for the first time since Q4 2010, the promissory notes of LLC “BVK Company “Fedorchenko” regained leadership (became 2nd, 327 funds). New on the TOP-10 were the promissory notes of OJSC “Kharkiv Ball Bearing Plant” (10th, 123 funds, after 13th place and 128 funds in Q2). The mortgage securities of LLC “Exco Plus” remained most popular ones with CII in Q3 2011 (332 funds, after 366 in Q2).

Table 7. Most popular securities by presence in CII portfolios as of 30.09.2011 .

No	Security type	Category	Issuer's name	Number of CII holding the security in their portfolios
1	Mortgage securities	mortgage	LLC "Exco-Plus"	332
2	Promissory notes	common	LLC "BVK Company "Fedorchenko"	327
3	Internal state loan bonds	interest-bearing bearer	Cabinet of Ministers of Ukraine	210
4	Promissory notes	common	LLC "Zhytloprombud"	208
5	Promissory notes	common	PJSC "Ukrainian Innovation and Financial Company"	200
6	Equities	common registered	OJSC "DEK "Tsentrenergo"	146
	Equities	common registered	OJSC "MC "Azovstal"	146
7	Equities	common registered	OJSC "Motor Sich"	142
8	Promissory notes	common	LLC "Kyivsky Wholesale Market"	139
9	Promissory notes	common	LLC "City-State"	132
10	Promissory notes	common	OJSC "Kharkiv Ball Bearing Plant"	123

The list of the ten most popular securities as of 30.09.2011 in the portfolios of **non-venture CII**, remained unchanged (Table 8). Just as three months ago, OVDP prevailed (interest bearing bearer – 98 funds – after 101 in Q2, registered – 3 funds, and non-interest bearing bearer – 1 fund).

The equities of OJSC “Motor-Sich” went up from 4th place to 2nd during the quarter (84 funds after 79 in Q2), and of OJSC “Kriukivsky Wagon-Building Works” – from 10th to 7th (66 funds vs 61).

The equities of OJSC "MC “Azovstal" narrowed their presence in open-end, interval and close-end non-venture CII most (79 funds vs 89, 2nd place vs 4th in Q2).

Table 8. Most popular securities by presence in non-venture CII portfolios as of 30.09.2011

No	Security type	Category	Issuer's name	Number of CII holding the security in their portfolios
1	Internal state loan bonds	interest-bearing bearer	Cabinet of Ministers of Ukraine	98
2	Equities	common registered	OJSC "Motor-Sich"	84
3	Equities	common registered	OJSC "DEK Tsentrenergo"	83
4	Equities	common registered	OJSC "MC "Azovstal"	79
5	Equities	common registered	OJSC “Avdiyivsky By-Product Coke Plant”	69
6	Equities	common registered	OJSC "Alchevsky Metallurgical Works"	68
7	Equities	common registered	OJSC "Kriukivsky Wagon-Building Works"	66
8	Equities	common registered	OJSC "Yasynivsky By-Product Coke Plant"	63
9	Equities	common registered	OJSC "Donbasenergo"	62
10	Equities	common registered	OJSC "Poltavsky GZK"	60

Therefore, the construction industry and the government finance remained two most popular directions of CII money investments. Majority of non-venture funds, just as previously, also held their assets



in the securities of the companies from the machine building, power generation, metallurgy, and by-product coke industry sectors.

The banking sector continued getting less attractive for CII, which was clearly due to the ban on acquisition of banks' equities by funds, which came into effect by the end of Q2 (in line with the amendments to Article 14 of the Law of Ukraine "On Banks and Banking Activity" introduced by the Law of Ukraine "On Amending Certain Laws of Ukraine as Regards Banking Activity Regulation" No.3024-VI dated 15.02.2011). Thus, the equities of PJSC "Ukrsotsbank" were held in the portfolios of 39 non-venture CII after 44 in Q2), although among all CII they were more popular (83 vs 84). The equities of JSC "Raiffeisen Bank Aval" remained within the assets of 37 non-venture CII (after 38 funds in Q2, and among all CII – 64 vs 72 funds).

By aggregate value within investment funds' assets in Q3 2011, **most popular**, just as in Q2, were the securities of JSC "MNPК "VESTA", the total value of investments into which this time grew significantly (+UAH 40.59M) – to UAH 1 331.99M (Table 9). However, these securities, just as earlier, were present in the assets of 3 close-end CII only (1 venture CII).

Table 9. Most popular securities – by aggregate value in CII portfolios as of 30.09.2011

No	Security type	Category	Issuer's name	Value of securities within CII assets, UAH
1	Equities	common registered	JSC "MNPК "VESTA"	1 331 992 050
2	Equities	common registered	OJSC "Lebedynska Spetsializovana Colona No.11"	1 262 120 827
3	Promissory notes	common	LLC "Stanislavska Trading Company"	916 133 000
4	Equities	common registered	OJSC "Avanguardinvest"	778 899 265
5	Equities	common registered	PJSC "Hadiatska Silhospkhimiya"	591 415 810
6	Equities	common registered	OJSC "OBK "Ofal"	583 981 422
7	Promissory notes	common	LLC "TSUP - Bucha"	555 289 377
8	Promissory notes	common	PJSC "Ukrainian Innovation and Financial Company"	543 353 816
9	Promissory notes	common	PrJSC "Ukrainian Metallurgy Company"	538 777 100
10	Equities	common registered	PrJSC "City Investments"	527 990 768

On the whole, the TOP-10 remained virtually unchanged, as only the promissory notes of "Tsentr Group 2008" exited from it after becoming 14th with UAH 421.49M worth of aggregate investments. The list was joined by the equities of OJSC "Lebedynska Spetsializovana Colona No.11", which became 2nd by an aggregate investment value (UAH 1 262.12M) that almost tripled during the quarter (+UAH 868.88M). Their presence in funds broadened from 33 to 43 CII (26 and 35 venture ones respectively).

In **non-venture CII** the amount of investments into these securities also tripled during July – September and brought them to 2nd place in the ranking by investment volume (UAH 540.34M).

On the whole, in Q3 the list of most popular securities within non-venture funds' assets once again underwent serious changes, although just as before, the equities of JSC "MNPК "VESTA" headed it. However, an aggregate volume of investments thereto decreased (-UAH 189.29M) to UAH 1 009.32M (Table 10).

Table 10. Most popular securities – by aggregate value in non-venture CII portfolios as of 30.09.2011

No	Security type	Category	Issuer's name	Value of securities within CII assets, UAH
1	Equities	common registered	JSC "MNPК "VESTA"	1 009 317 900
2	Equities	common registered	OJSC "Lebedynska Spetsializovana Colona No.11"	540 339 957
3	Equities	common registered	OJSC "Avanguardinvest"	202 976 785
4	Internal state loan bonds	interest-bearing bearer	Cabinet of Ministers of Ukraine	166 968 886
5	Equities	common registered	PJSC "GPI-Invest"	149 999 702
6	Corporate bonds	interest-bearing registered	LLC "Company Rodovid"	123 085 648
7	Corporate bonds	interest-bearing registered	PrJSC "Lagoda" Confectionary"	120 000 000
8	Equities	common registered	PJSC "Leninska Kuznia" Works"	115 126 221
9	Equities	common registered	PrJSC "Intercorn Corn Processing Industry"	108 167 073
10	Equities	common registered	OJSC "Tcherkassy Transport Repair Works"	101 705 678



As new popular instruments appeared and investments into those that had been present earlier increased, the equities of CJSC “BMG” (CJSC “IC “Business Management Group”) found themselves beyond the TOP-10, although the volume of investments into them remained unchanged (UAH 99.70M).

The equities of PJSC “GPI- invest” appeared on the TOP-10 for the first time (5th, UAH 150M). The equities of OJSC “Tcherkassy Transport Repair Works”, which became 10th in Q3 (UAH 101.71M), in the previous quarter had been far in the second hundred (UAH 3.5M).

The bonds of LLC “Company Rodovid”, which in Q2 were 30th on the list of most popular securities with UAH 41.70M worth of aggregate investments, in Q3 became 6th (UAH 123.09M), whilst the bonds of PrJSC “Lagoda” Confectionary” - 7th (UAH 120.00M), despite having been absent in the portfolios of reviewed non-venture funds during the preceding quarter and having been in the middle of 4th dozen in Q1 with UAH 50.00M.

OVDP (interest bearing bearer) in Q3 further expanded their presence in funds having moved up from 3rd position to 4th and increasing investment value by UAH 39.87M (to UAH 166.97M.), and together with non-interest bearing and registered ones – by UAH 39.97M (to UAH 188.30M).

Therefore, in Q3 2011, the value of major CII investments into securities grew quite significantly: the TOP-10 of all CII was worth of UAH 7 629.95M, which was UAH 545.17M more (+7.69%) than in Q2, and of non-venture ones – UAH 2 637.69M – an increase by UAH 87.81M (+7.67%).

6. Non-venture CII Rate of Return

Stock indexes, having experienced a rapid decline in Q2 (-18%), sped up downward movement in Q3 (-37%), which was accordingly reflected in the rates of return on investments into CII. However, due to strict requirements to the portfolio structure of diversified funds on the one hand, and a relatively broad range of investment instruments to choose, as well as an opportunity to implement different investment strategies in non-diversified CII on the other, the collective investments market in July – September 2011 demonstrated a significantly more reserved dynamics of the rates of return decrease than during three preceding months. For instance, *open-end CII* demonstrated an average loss of their securities’ value at the level of -13.6%, and interval CII – at -9.7%. Somewhat better, although a still negative result – -7.6% - was demonstrated by *close-end* funds (Chart 13).

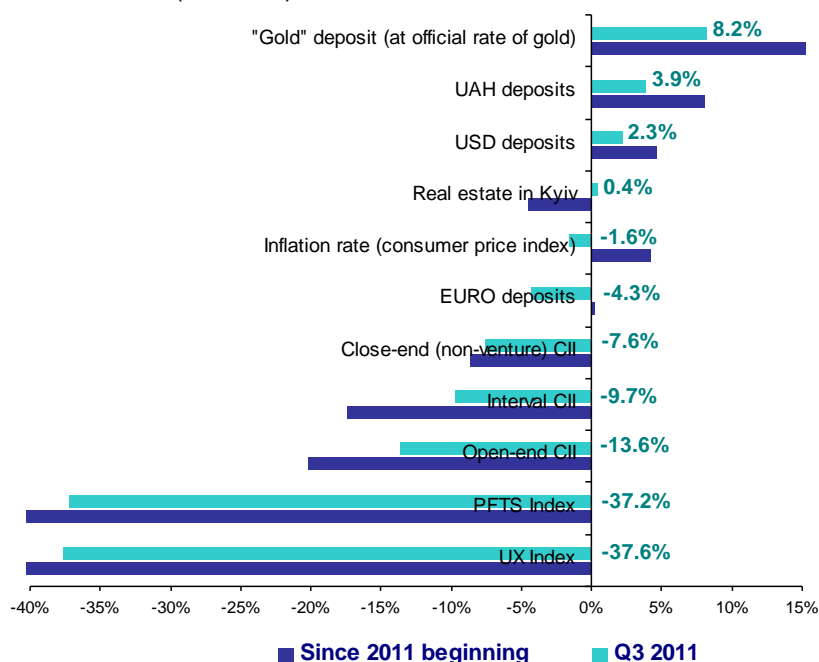


Chart 13. Average rates of return – non-venture CII, deposits, equity indexes and inflation rate in Q3 and since the beginning of 2011²

² CII rates of return are calculated based on the reporting data for Q2 2011 (38 open-end, 40 interval and 145 close-end CII) and Q3 2011 (39 open-end, 38 interval and 138 close-end CII). See Ranking of the rates of return of open-end, interval and close-end funds in 2011. The inflation rate provided is based on the State Statistics Committee data (Consumer price indexes – 2011). Return on real estate is calculated based on Kyiv real estate value index (Source: <http://www.blagovest.ua>).



Just as in the previous quarter, most of the funds' indicators were negative. 6 out of 39 open-end, 6 out of 38 interval, and 40 out of 138 close-end CII were profitable.

Open-end funds' average rate of return declined by more than 4 p.p. (from -9.4%), at that, the number of CII included into the calculation went up from 38 to 39. Rates of return generated ranged between -33.1% and +3.3%.

The performance results of *interval CII* were similar to those of the preceding quarter – funds generated between -32.8% and +23.1%, which decreased an average rate of return by 1 p.p.

The range of the quarterly rates of return of *close-end* funds significantly broadened compared to the preceding quarter and was between -92.8% and +25.4% (118 p.p). That was accompanied by decrease of an average rate of return by almost 3 p.p.

All in all, the negative dynamics of the return on CII investments in Q3 2011 strengthened the downtrend, which was predictable under the circumstances of the main Ukrainian stock trading floors' equity indexes' failure.

As to the other investment directions, in Q3 one the preceding quarter leaders – *Euro deposits* - were loss-making (-4.3%) due to a drop of the European currency's value resulting from the sovereign debt crisis. *Gold deposits* demonstrated best result for the second quarter in a row (+8.17%). *Deposits in UAH* were less profitable (+3.9%), as the interest rates on them in July – September went down, just as in case of the *deposits in USD* (+2.3%).

7. CII NAV Breakdown by the Types of Investors

In Q 3 2011, Ukrainian companies remained the main category of investors in CII, although their share continued narrowing (from 82.09% to 81.22% of aggregate assets). Unlike in Q2, that was due to the changes in venture funds, as this time in all types of non-venture CII was observed an increase in the share of investments belonging to legal entities – residents. An aggregate share of the said category in non-venture funds increased 5.43 p.p. (from 60.41% to 65.84%), and in venture ones – decreased 1.12 p.p. (from 83.88% to 82.75%) (Table 11).

Table 11. CII NAV breakdown by the types of investors as of 30.09.2011, % of NAV

Funds	Legal entities		Natural persons	
	residents	non-residents	residents	non-residents
Open-end	29.31%	12.21%	57.49%	1.00%
Interval	46.34%	2.64%	50.94%	0.08%
Close-end (non-venture)	67.30%	7.07%	25.50%	0.13%
All (non-venture)	65.84%	7.12%	26.89%	0.15%
Venture	82.75%	15.52%	1.69%	0.04%
All (including venture)	81.22%	14.76%	3.98%	0.05%

Non-residents' contributions somewhat increased – from 14.27% to 14.81% – owing to open-end and venture CII and as of 30.09.2011, and comprised between 2.72% in interval and 15.56% in venture funds. As for the investments of the Ukrainian citizens, in non-venture CII they narrowed from 31.04% to 26.89% of the aggregate assets, and in **all CII** – grew from 3.64% to 3.98% – due to the dynamics of investments into venture funds.

Natural persons – residents in July-September 2011 still were the main investors of **open-end CII**, although their share decreased most during the redistribution of participation in CII in this quarter (-4.87 p.p., to 57.49%). Such dynamics resulted from curtailment by the citizens of their investments into open-end funds, at an aggregate net outflow from these CII during the quarter amounting to UAH 17.43M. An aggregate value of the investments of natural persons – residents in these funds decreased during Q3 by almost 39M, having grown by UAH 3.20M in Q2.

The share of *legal entities – residents* in open-end CII, having increased in Q2 by almost 2 p.p., in Q3 added 4.10 p.p. more and reached 29.31%. Simultaneously, a decline in the investments of foreign companies by more than UAH 3M did not prevent broadening of their share from 11.63% to 12.21%, as investments of the Ukrainian citizens were withdrawn. As of 30.09.2011, *legal entities and natural persons – non-residents* jointly held 13.21% of open-end funds' assets.



Therefore, the level of national companies' participation in open-end CII remained almost unchanged, despite downward securities market tendencies.

Natural persons-residents also remained the key investors of **interval CII** in Q3. In the meanwhile, their share underwent a minor decrease – from 51.66% to 50.94%, and the actual amount of investments decreased most among all investor categories of these CII – by more than UAH 17.

Similarly to open-end funds, the share of legal *entities-residents* also increased here (from 44.91% to 46.34%), which, however, occurred solely due to a more dynamic outflow of citizens' moneys, although a portion of national companies' investments was withdrawn from interval funds. The share of *non-residents'* investments declined, in particular, the *legal entities'* one – from 3.34% to 2.64%.

In **close-end non-venture CII** in Q3 2011 an absolute majority by investment volume, which grew by almost UAH 1 500M, still belonged to *legal entities-residents*. Their share expanded from 62.32% to 67.30%, and neared the indicator of Q1 (68.29%). Under such circumstances and due to an increase of close-end funds' assets on the whole, even an increase of the total value of investments of natural persons-residents by more than UAH 150M in these funds could not bring to an increase of their share, and it shrank from 29.14% to 25.50%. A similar situation occurred in case of non-residents. In particular, the share of *the legal entities registered abroad* shrank from 8.33% to 7.07%.

The value of **venture CII** assets belonging to national companies decreased from 83.88% to 82.75% in Q3, as more positive dynamics of the Ukrainian citizens' and non-residents' investments into these funds was registered. As a result, the share of *natural persons – residents* continued to grow (from 1.38% to 1.69%), and of *legal entities – non-residents* – resumed growth (from 14.71% to 15.52%), having offset preceding shortening.

8. Resume

Q3 2011 results did not bring any optimism to the stock market participants, including collective investment funds. In practice, almost only the venture market segment continued increasing assets, which reached almost UAH 109 bln, at traditionally greatest increase in the number of funds. Upward dynamics was demonstrated by a part of non-venture close-end CII as well, due to which the sector grew up to almost UAH 10 bln. All in all, that provided for an increase of the aggregate assets of the funds' industry up to UAH 119 bln.

The greatest losses in July – September were incurred by the sectors of interval and open-end CII. The latter suffered not only as a result of losing dynamics of stock indexes which pushed their value 37% down during the quarter and depreciated a considerable portion of funds' own assets, but also because of a serious net outflow which exceeded UAH 17M and, therefore, neutralized almost half of the proceeds from investors received since the start of 2011. The activity of open-funds' participants on withdrawal of their moneys closely correlated with the dynamics of the key stock indexes downturns.

As a number of companies and funds were exiting from the market, the total number of AMC as of Q3 end declined from 347 to 345, and of CII – grew to 1415 registered and 1206 such that complied with the minimal asset volume standard. Most of the CII that entered the market (and were recognized) were venture ones (26 CII). The sector of open-end CII preserved moderate dynamics as regards the number of participants – only one fund that complied with the standards added, at that, several CII of that type were at liquidation stage.

Stock indexes' decline affected CII asset structure, where, as a rule, narrowing of the portfolio of unit securities, just as all other stock instruments, was observed. As of Q3 end, in open-end funds equities made up to 25% of the aggregate asset value, which was twice less than the maximum indicator registered in Q1 2010. Venture funds were the only exception, as the share of equities there grew by more than 1 p.p. – above 12%.

Similar pattern was observed in the dynamics of CII investments into corporate bonds – their share within the aggregate portfolios of open-end and close-end non-venture funds decreased (to 10.2% and 5.6% accordingly), whilst in interval ones – increased (up to 9.4%). That occurred primarily due to mass cuts of investments into equities and decreases of these funds' money volumes on bank accounts. Moneys were the main component of the aggregate assets of open-end funds (31.8%), while in interval and close-end funds equities continued to prevail (52.3% and 49.5% accordingly). Traditionally, main part of the



venture CII portfolio – “other” assets (59%) – in Q3 somewhat grew down by aggregate value and by the share within the sector aggregate assets.

Therefore, the pendular dynamics of CII portfolio structure, which had been characteristic of the industry earlier, to a certain extent continued through July–September 2011, although the tendency towards narrowing the share of equities in the majority of funds had been preserved since April–June as a consequence of deepening stock market crisis.

In connection with the above, in Q3 a decrease of CII rates of return was also observed. Depending on the types of funds, it ranged on average between -13.6% in open-end and -7.6% in close-end CII. Maximum estimated losses of participants of each type of funds reached -33.1%, -32.8% and -92.8% respectively. Therefore, all open-end and interval funds generated higher, compared to the key equity indexes, performance results, and among close-end funds – 132 out of 138 succeeded in doing so. At that, a number of funds managed to grow their securities’ value. Among them were 6 open-end CII, whose maximum quarterly rate of return reached +3.3%, 6 interval CII (up to +23.1%) and 40 close-end non-venture CII (up to +25.4%). Under such market conditions there was no question of funds’ competition with bank deposits by rates of return, though several CII managed to demonstrate quarterly performance results that were close or even higher compared to the deposits in UAH. Among them were – 1-2 open-end, 3-4 interval and 11-12 close-end funds.

Most notable tendency as regards the participation of different investor categories in non-venture CII in Q3 2011 was an increase of the share of investments of national companies and a decrease of Ukrainian citizens’ presence in the funds, as the latter, having grown their investments in Q2, at the start of stock market downtrend formation withdrew a portion of investments from the most liquid (open-end) funds.

In the sector of venture CII, the specific feature of Q3 consisted in increase of the share of legal entities – non-residents at the expense of legal entities–residents. As a result, the share of foreign companies and citizens within CII assets grew, which was accompanied by weakening participation of the Ukrainian companies that traditionally had been major investors of venture funds.