

Performance Analysis – Collective Investment Institutions, the First Half-Year of 2007

The first half-year of 2007 was characterized by a stable growth dynamics of the Ukrainian stock market. In particular, monthly PFTS trading volume went up from UAH 937.2 million in January to UAH 2 535.8 million in June of the current year; the number of securities listed on PFTS increased from 682 to 717, and PFTS “index basket” grew from 14 to 17 issuers. The dynamics of PFTS index was also positive – over six months of year 2007 it went up by 99.74 % - making it one of the best indicators over an entire period of the index’s existence. At that, the volatility of the index was low (chart 1), with exception of the period by the end of February during which certain events were occurring in the Asian markets, and which caused a 19.5% fall of PFTS index over ten days, and March political events in Ukraine, which caused a 11.7% index decrease over fortnight. However, PFTS index managed to regain its positions fairly quickly.

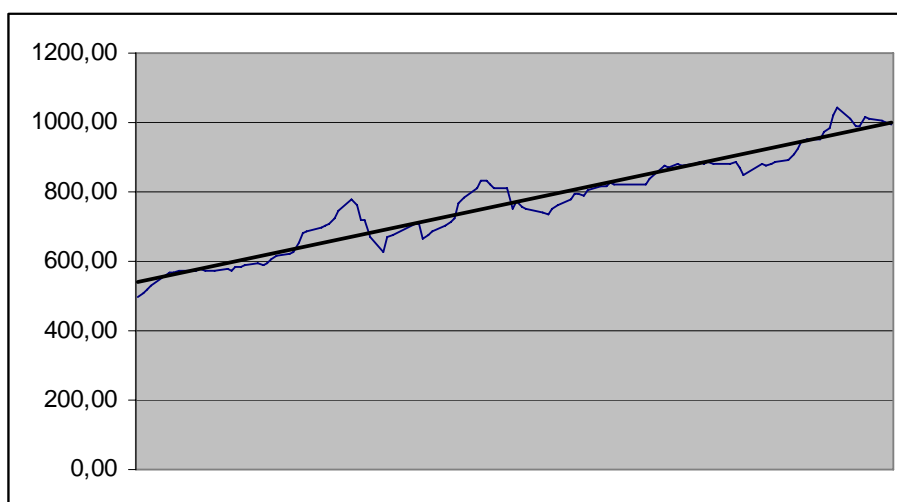


Chart 1. PFTS index dynamics over the first half-year 2007

The stable growth dynamics of the securities market had an adequate impact on the Ukrainian collective investment market, which demonstrated growth over the first half-year of 2007. The number of market participants increased: since the beginning of the year the SSMSC issued licenses for institutional investors' asset management to 44 new AMC. As of 30 June 2007, 272 licensed asset management companies were operating in Ukraine. Also, collective investment institutions were actively established (table 1).

Table 1
The dynamics and structure of collective investment institutions in the first half-year of 2007

Date	Total	UIF					CIF	
		Open-end	Interval	Close-end diversified	Close-end non-diversified	Venture	Close-end non-diversified	Venture
12.31. 2006	519	10	25	3	29	377	42	33
Share, %	100.0	1.93	4.82	0.58	5.59	72.64	8.09	6.36
06.30. 2007	651	13	30	3	29	486	55	35
Share, %	100.0	2.00	4.61	0.46	4.45	74.65	8.45	5.38

Over the half-year, the number of registered CII increased by 132 investment funds, thus totaling 651 investment funds as of the first half-year end. Just as before, these are venture funds that prevail in terms of number – they make up to 80.03% of the total number of CII.

Similar is the dynamics of the registered issuance indicators (charts 2 and 3) and collective investment institutions' assets volume indicators (table 2 and chart 4).

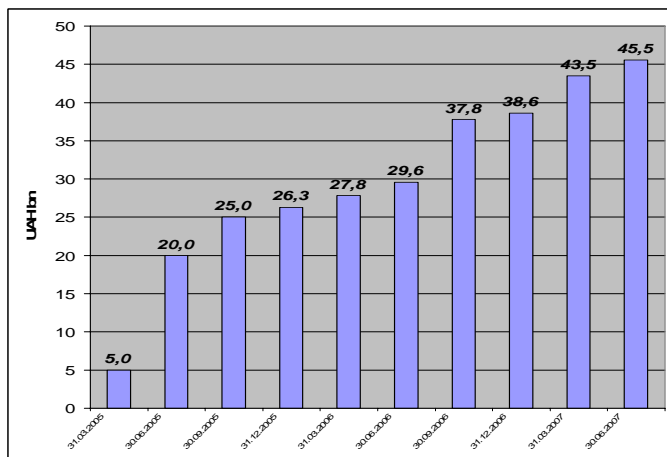


Chart 2. Registered issuance volumes' dynamics

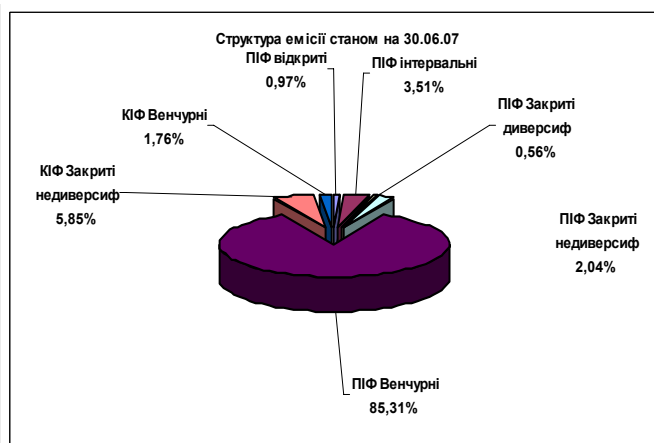


Chart 3. Structure of investment funds' announced issuance by the types of CII as of the end of the 2nd quarter of 2007

Table 2

CII assets' volume dynamics by the type of funds over the first half-year of 2007

Funds	01.01.2007, UAH m	07.01. 07, UAH m	Growth, %
Open-end	62.04	178.48	187.71%
Interval	37.78	119.32	215.80%
Close-end (non-venture)	1273.59	2248.74	76.57%
Venture	15771.81	21430.38	35.88%
Total	17145.22	23976.92	39.85%

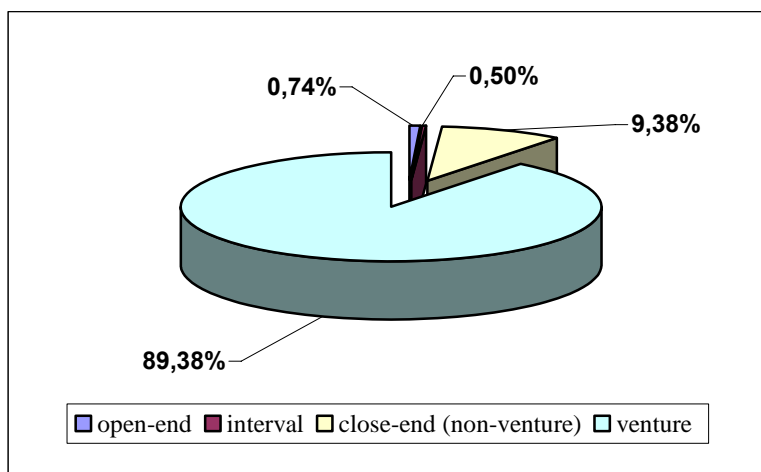


Chart 4. CII asset structure by the type of funds as of 07.01. 07

Remarkably high growth rate of the asset volumes of diversified funds (over 180%) is an evidence of active entering the market by public CII that attract natural persons' funds.

Summarizing the above – an overall trend of the collective investment market development is up-going, in other words, the one that is characteristic of the markets in the process of formation.

* * *

Further analysis of CII performance will be conducted based on the results of analysis of non-venture funds' performance in the first half-year of 2007, insofar as in line with the legislation venture funds file annual reports only.

The key quantitative indicator of investment funds' performance – net asset value (NAV) – went up by 70% over the first half-year of 2007, having reached UAH 2 006.4 M (see Table 3). Most active growth was demonstrated by interval funds (growth – 189.5%), and most slow growth – by close-end ones (growth – 60.42%). However, within the total NAV structure the breakdown is opposite: 86.2% belongs to close-end CII, 8.5% - to open-end, and 5.4% - to interval ones.

Table 3
Dynamics of the net assets of non-venture CII, breakdown by the type of funds, for the first half-year of 2007

Funds	NAV, as of 01.01.07, UAH m	NAV, as of 07.01. 07, UAH m	Growth, %
Open-end	61.96	170.02	174.41
Interval	37.07	107.35	189.54
Close-end	1 077.82	1 729.02	60.42
Total	1 176.86	2 006.39	70.49

Similar is the pattern of citizens' contributions (see Table 4): most of investments were made into close-end funds, although natural persons were most actively investing into interval CII.

Table 4
Dynamics of belonging to the population net assets of non-venture CII, breakdown by the type of funds, for the first half-year of 2007

Funds	NAV, belonging to the population, as of 01.01.07, UAH m	NAV, belonging to the population, as of 07.01. 07, UAH m	Growth, %
Open-end	33.24	68.66	106.52
Interval	27.68	84.56	205.50
Close-end	328.21	542.61	65.32
Total	389.13	695.83	78.81

Comparison of Tables 3 and 4 allows to see that natural persons were investing into CII more actively than legal entities: the growth of the NAV belonging to the population went ahead of the overall growth of CII NAV.

Clearly, participation of the Ukrainian population in investment funds is still rather **low** compared to other methods of placement of citizens' investments. For instance, of the personal income in Ukraine for the six months (UAH 260 249 m) less than 0.1% was invested into CII, whilst 7.73% of the said income was placed in savings accounts. As of 30 June 2007, deposits of natural persons in commercial banks 187 times exceeded the investments made by the population into the collective investment institutions. In the opinion of the UAIB analysts, such indicators may not be reached in the nearest future, although the tendencies of development give the grounds to forecast that investors – natural persons will be becoming more active. That could be furthered by improvement of educational work by the companies, and entering regional markets by the latter.

On the background of the general tendency towards CII market expansion, positive changes occurred in the investment portfolio management, and the structure of the said portfolio improved considerably over the last six months. As one can see from Chart 5, over time securities are increasing their stake within the CII asset structure and on 30 June 2007 their share equals to 67.3%.

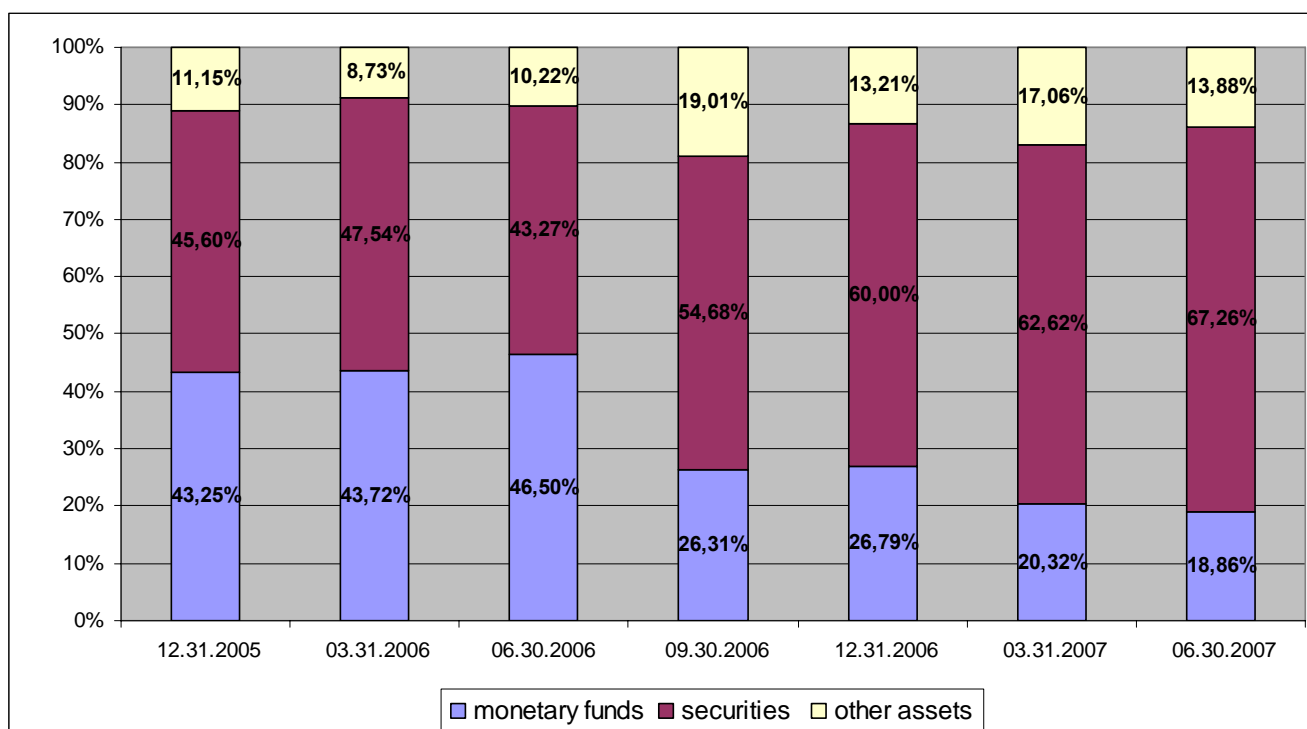


Chart 5. Changes in the structure of assets of non-venture CII over the period 12.31.05 through 07.01.07

In terms of value, the structure looks as follows (table 5).

*Table 5
Structure of the assets of non-venture CII, by the types of funds, as of 07.01.07, UAH m*

Funds	Cash	Securities	Other assets	Real estate	Total
Open-end	49.92	116.12	4.22	0	170.26
Interval	25.76	80.66	2.74	0	109.15
Close-end	362.35	1 364.95	312.41	2.96	2 042.66
Total	438.02	1 561.73	319.36	2.96	2 322.06

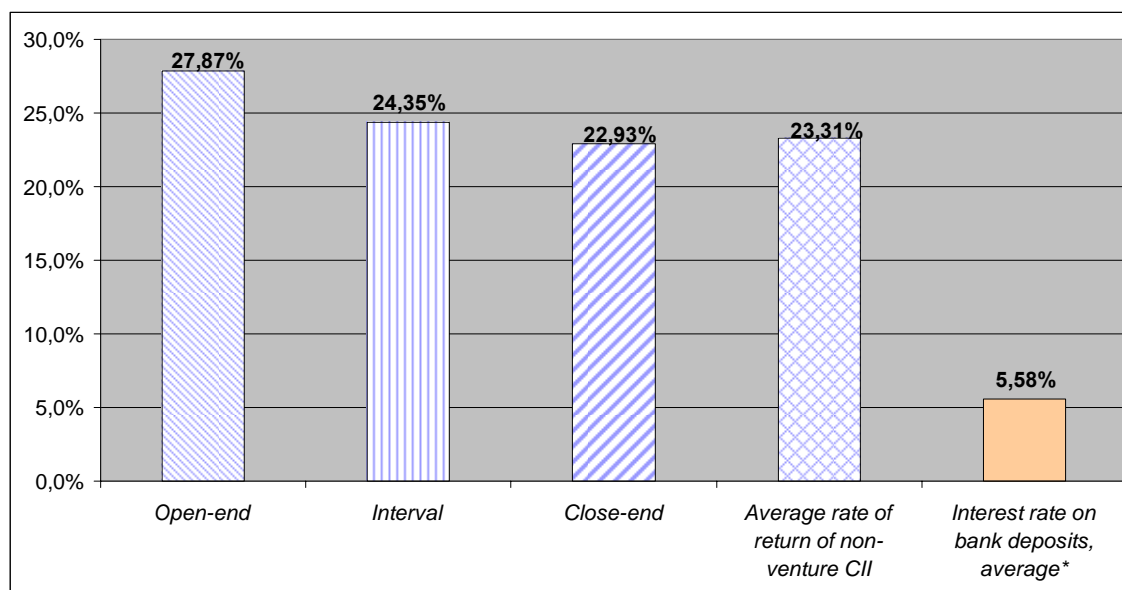
Shares are the securities that CII prefer most: they comprise 40.41% within the structure of non-venture investment funds' assets. The structure of the securities portfolio is provided in Table 6.

Table 6

Structure of the securities portfolio of non-venture CII, by the type of funds, as of 06.30.07, UAH m

Type of fund	Shares	Promissory notes	Government bonds-internal loan	Local loan bonds	Corporate bonds	Savings certificates	Total
Open-end	67.44	2.22	5.01	11.32	30.13	0	116.12
Interval	54.50	0.09	1.82	5.50	18.75	0	80.66
Close-end	816.43	41.59	0	2.92	486.00	18.00	1 364.95
Total	938.37	43.90	6.84	19.74	534.88	18.00	1 561.73

An important role in the process of collective investment market formation is played by the level of the rate of return on investments into investment funds. In the first half-year, on the background of an active development of the national stock market, that factor had a positive impact on the CII development. As it can be seen from Chart 6, the rate of return of investment funds several times exceeded the rate of return on alternative investments, in our case – on bank deposits.



* average annual interest rate on one-year deposits in UAH (15% per annum), in USD (10.5% per annum) and euro (8% per annum) in equal proportions for half-year (source: www.finance.com.ua)

Chart 6. Average rate of return of venture CII and average interest rate on bank deposits in the first half-year of 2007

Therefore, the performance of non-venture investment funds in the first half-year of 2007 confirms positive market development dynamics. By its activity volumes, the said market falls behind developed countries only, and its potential allows to forecast further active development of the collective investments market.