

Performance Analysis – Collective Investment Institutions, Nine Months of 2007

In the first quarter of 2007, the collective investments market continued its active development, improving in terms of quantity, as well as quality.

The development was furthered by positive changes in the external environment, in particular, by active growth of the domestic stock market. Ukrainian stock market capitalization growth for nine months of 2007 was one of the greatest in the world (Table 1).

Table 1

Stock indices' growth for nine months of 2007

Indices	01.01.2007	09.30.2007	Growth
PFTS (Ukraine)	498,86	1 034,38	107,35%
HANG SENG (China)	19964,72	27142,47	35,95%
WSE WIG (Poland)	50411,82	60368,92	19,75%
DAX (Germany)	6596,92	7861,51	19,17%
DOW JONES INDUS. AVG (USA)	12463,15	13895,63	11,49%
RTS (Russia)	1921,92	2071,8	7,80%
FTSE 100 (England)	6220,8	6466,8	3,95%
NIKKEI (Japan)	17225,83	16785,68	-2,56%

Also, the demand for CII services was boosted by increasing savings of the population and gradual broadening of available information on the activities of investment funds.

And, as a result, the assets of collective investment institutions grew by 70,5% since the beginning of 2007 (Chart 1).

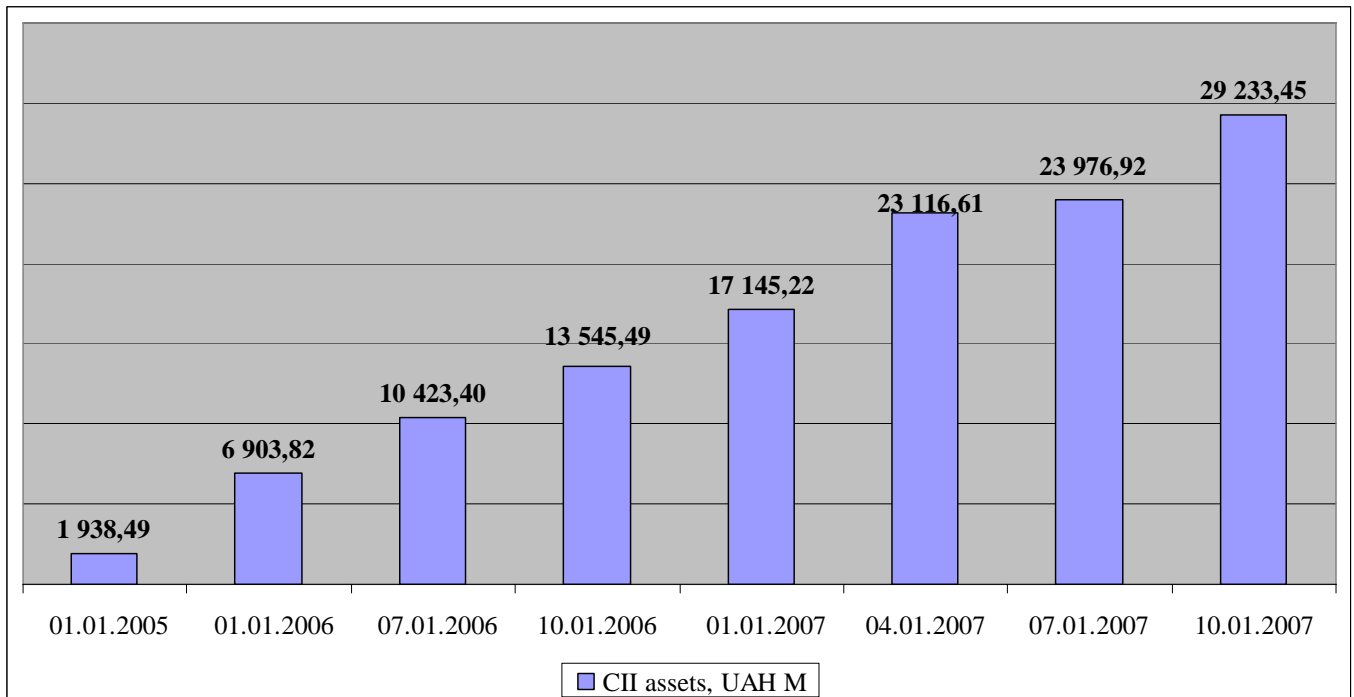


Chart 1. Investment funds' asset volume dynamics over the period 01.01.2005 through 10.01.2007

NAV value-related forecasts regarding the CII market volume for the year to come publicized by the UAIB at the end of 2006 remain rather realistic (Chart 2).

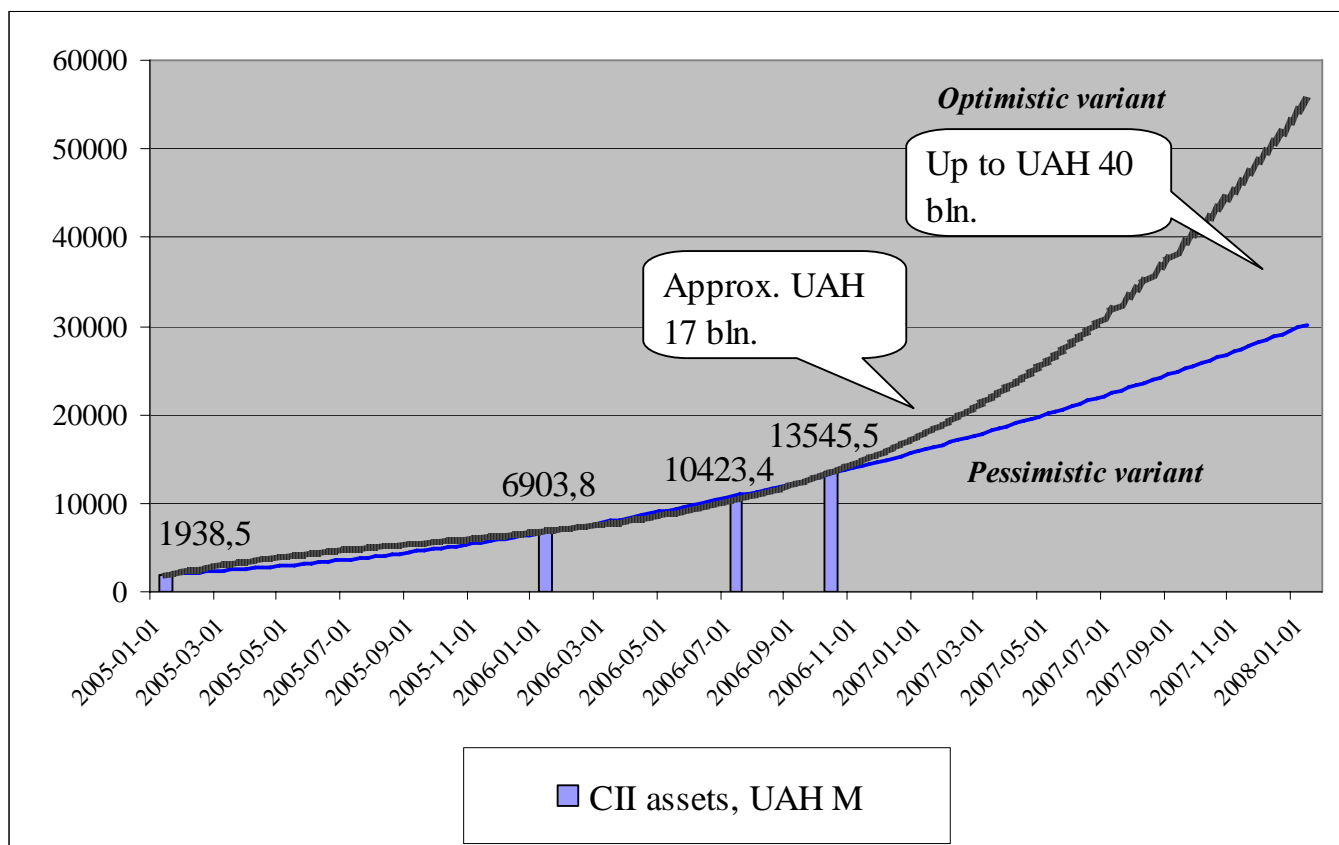


Chart 2. CII asset growth dynamics for the period 01.01.05 through 01.01.07 and CII asset volume - forecast for 2007 end

An active market growth is accompanied by improvement of the development model: a gradual transition from extensive to intensive collective investment market growth is going on. If during previous periods the market was growing as a result of new entities' entering, in the current year the market growth is due to increasing asset volumes managed by each market entity. At that, the pace of new AMC creation is decreasing.

For nine months of 2007, the number of new AMC went up by 27,2% (in 2006 the growth for a similar period was 37,7% - Chart 3), an increase of registered investment funds comprised 43,55% (Table 2), and an increase of assets in the management – 70,5%.

Table 2

Dynamics of the number of collective investment institutions for three quarters of 2007

Date	Total	SIF					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
09.30.2007	745	18	35	3	28	553	70	38
Growth	43,55%	80,00%	40,00%	0,00%	-3,45%	46,68%	66,67%	15,15%

As a result, the number of investment funds managed by one AMC increased up to 2,6 funds (at year beginning – 2,3 funds), an average fund size increased to UAH 39,2 M (at year beginning – UAH 33,0 M), and an average amount of assets managed by one AMC grew to UAH 100,8 M (at the beginning of the year – UAH 75,2 M).

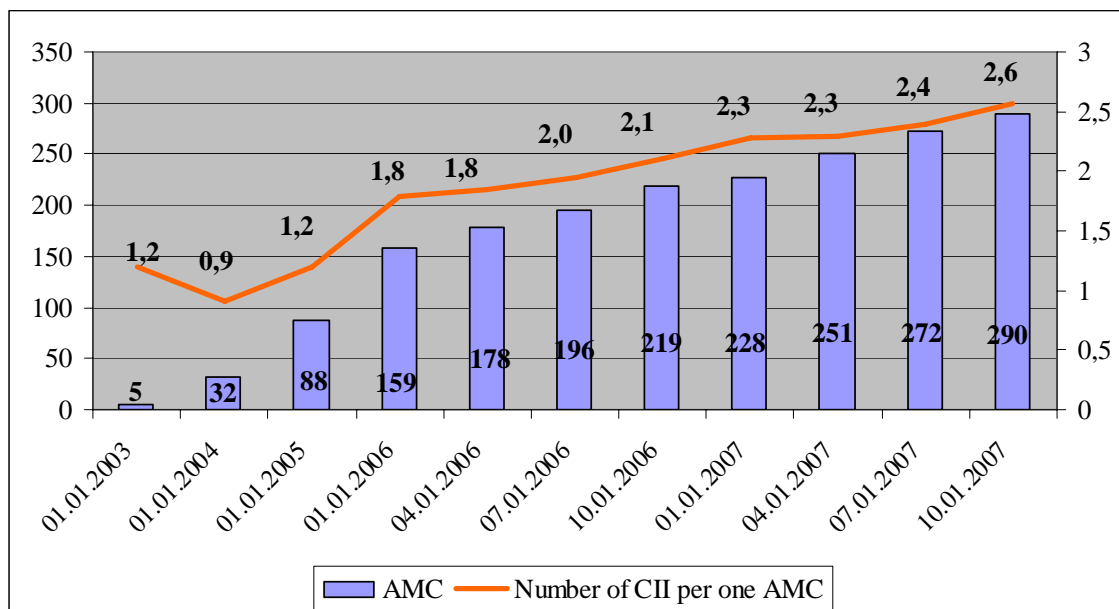


Chart 3. AMC growth dynamics over the period 01.01.2003 through 10.01.2007

Just as earlier, the leaders are venture funds, whose assets comprise over 90% within aggregate CII assets (Chart 4). However, the share of venture funds is gradually decreasing to the advantage of public CII (Chart 4), which are actively building up their volumes.

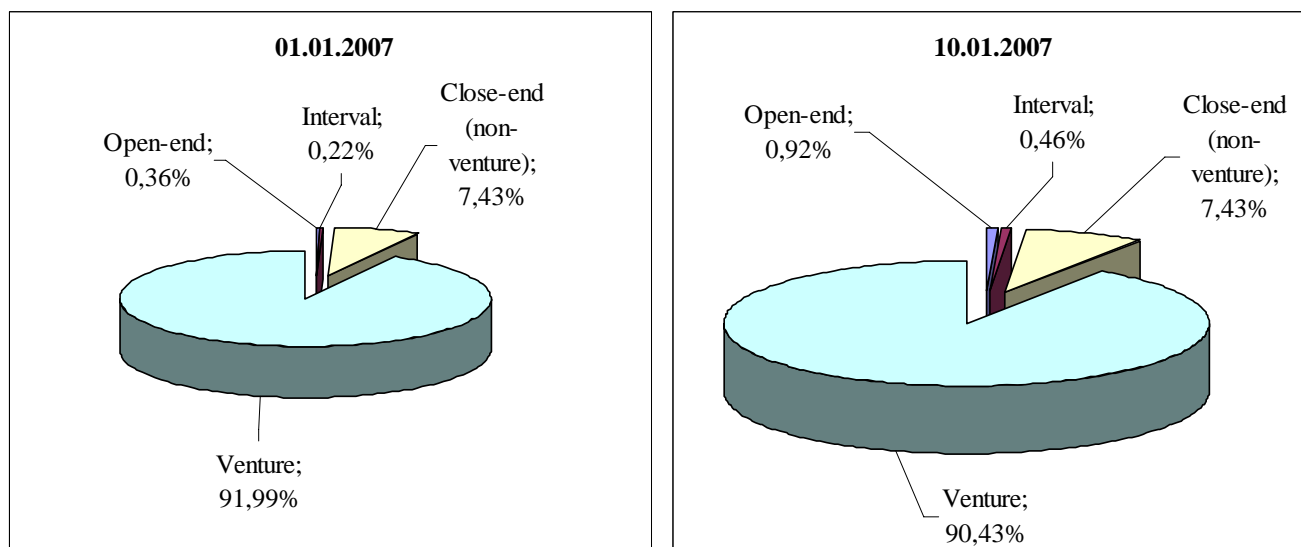


Chart 4. CII asset structure, by the type of funds, as of 01.01.07 and 10.01.07

Whilst over nine months of 2007 the assets of venture funds grew only by 67,61%, the assets of non-venture CII – by more than 100% (Table 3).

Table 3

CII assets volume dynamics, by the type of funds, for nine months of 2007, UAH M

Types of funds	01.01.2007	10.01.2007	Growth	Growth,%
Open-end	62,04	267,89	205,85	331,83%
Interval	37,78	134,44	96,66	255,83%
Close-end (non-venture)	1 273,59	2 396,11	1 122,51	88,14%
Venture	15 771,81	26 435,01	10 663,20	67,61%
Total	17 145,22	29 233,45	12 088,22	70,50%

Further research will be focused on the analysis of activities of non-venture investment funds over three quarters of 2007.

For the segment of non-venture CII, the current year so far has been one of the most successful ones both in terms of attracting new investors (funds' net asset growth exceeds 110%), and of the rate of return on investments (average rate of return of CII several times exceeds the rate of return of alternative investment vehicles).

Open-end funds were developing most actively: their net assets more than quadrupled over nine months of 2007 (Table 4). Interval CII come second by NAV growth rate.

The key reason – active entering the collective investment market by the population. These are diversified funds (primarily open-end and interval ones) that are particularly attractive for the beginners. Experienced investors invest into more risky, but more profitable close-end funds.

Table 4

Dynamics of the net assets of non-venture CII, by the type of funds, for nine months of 2007, UAH M

Types of funds	NAV at year beginning	NAV as of 09.30.07	Growth, %
Open-end	61,96	266,76	330,54%
Interval	37,07	132,21	256,60%
Close-end	1 077,82	2 097,54	94,61%
Total	1 176,86	2 496,51	112,13%

It should be noted that the growth of national interval open-end and interval funds is restrained by imperfect legislation that sets forth specific limits on investment for AMC, which restricts the investment strategy flexibility. That makes a lot of potential investors of open-end and interval CII invest into close-end funds that do not have such legislative restrictions.

One more indicator that proves an increasing interest of the population in investment funds is an indicator of growth of the net assets belonging to individuals. From Table 6 one can see that the investments of the population into funds are growing faster than those of legal entities. For instance, growth of the net assets belonging to individuals for nine months of 2007 amounted to 158,1%, whilst total NAV growth reached only 112,1%. Furthermore, the gap between population's investments into CII and bank deposits is gradually shrinking – over nine months it decreased almost twice, and as of 30 September 2007 the population's bank deposits exceeded investments into CII 116 times (Table 5).

Table 5

Dynamics of non-venture CII net assets belonging to individuals, by the type of funds, for nine months of 2007, UAH

Date	NAV	NAV belonging to the population	Deposits of the population	Deposits' excess over CII contributions, times
01.01.2007	1 176,858	473,588	106 885,00	226
10.01. 2007	2 496,510	1 222,506	141 227,00	116
Growth rate	112,13%	158,14%	32,13%	

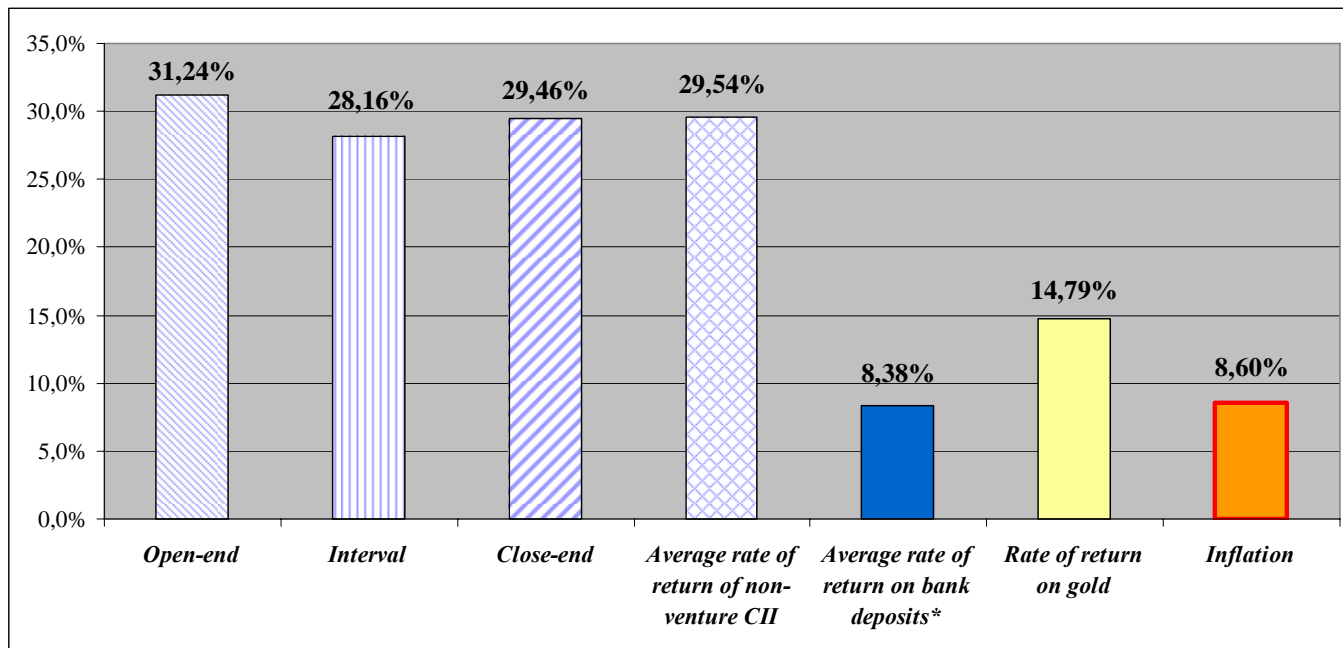
Analyzing structure of the net assets of non-venture funds by the types of investors (Table 6), one can notice that as of the third quarter end most assets belonged to individuals-residents (48,54%), the second place was held by legal entities-residents (40,09%), which were followed by legal entities-non-residents (10,94%), and least of investments were made by individuals – non-residents (0,42%).

Table 6

Structure of the net assets of non-ventures funds, by the type of investors

Types of funds	Legal entities-residents	Legal entities non-residents	Individuals-residents	Individuals- non-residents
Open-end	3,19%	53,20%	42,79%	0,82%
Interval	21,60%	2,63%	75,60%	0,17%
Close-end	45,95%	6,09%	47,57%	0,39%
Total	40,09%	10,94%	48,54%	0,42%

Such an active participation of the population in investment funds is primarily due to the attractiveness of investments into CII, which ensure higher rate of return compared to alternative investment vehicles. As it can be seen from Chart 5, funds' rate of return several time exceeds the rate of return on bank deposits and precious metals transactions, and allows investors to increase their real capital adjusted for inflation rate.



* average market 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 three quarters of 2007r (source: www.finance.com.ua)

Chart 6. Average rate of return of non-venture CII and average rate of return on bank deposits, precious metals transactions, as well as inflation rate for three quarters of 2007

High rate of return of investment funds is due, in the first turn, to securities transactions, in particular, corporate shares, whose value dynamics has kept high recently, and which is influenced by understated capitalization of enterprises compared to their foreign peers, as well as high financial results of share issuers' performance in the course of the current year.

Aiming to generate high profits and benefit from the favorable situation in the stock market, the majority of funds changed their investment portfolio structure in favor of investments into securities (Chart 7).

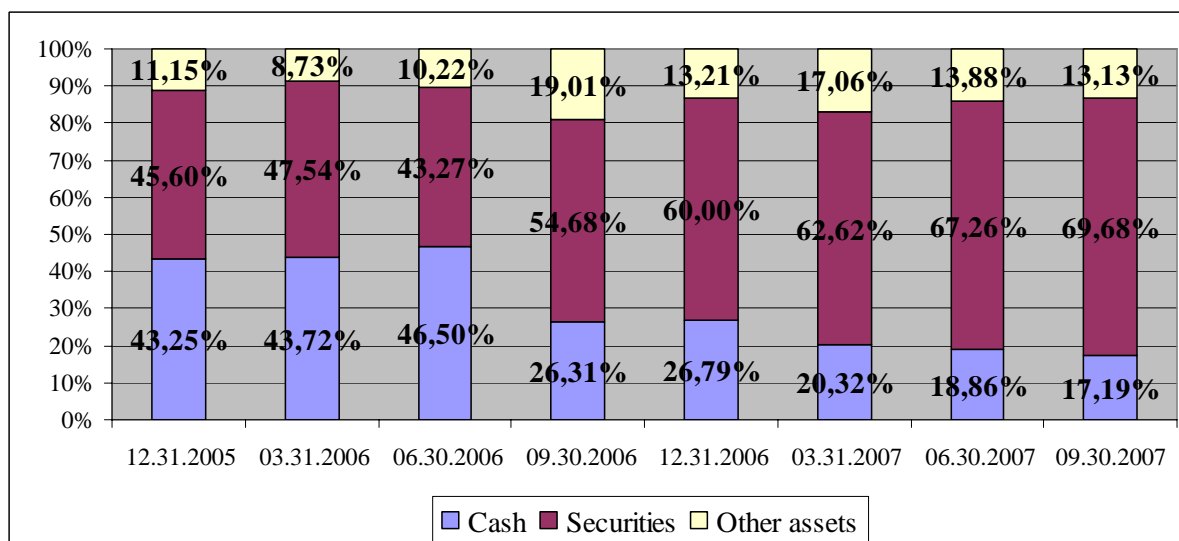


Chart 7. Change in the structure of non-venture CII assets over the period 12.31.05 through 09.30.07

In terms of value, the structure looks as follows (Table 7).

Table 7

Structure of non-venture CII assets, by the type of funds, as of 30 September 2007, UAH M

Types of funds	Cash	Securities	Other assets	Real estate	Total
Open-end	88,98	174,72	4,03	0,00	267,74
Interval	32,47	98,30	2,96	0,00	133,74
Close-end	359,33	1 675,30	357,16	2,97	2 394,76
Total	480,79	1 948,33	364,15	2,97	2 796,24

Within the structure of the securities portfolio are such financial instruments as equities, promissory notes, corporate bonds, local loan bonds, government bonds of internal loan etc. (Table 8). The greatest is the share of equities: 44,82% within the structure of non-venture funds' assets, whilst as of the beginning of 2007 they comprised only 29,8%.

Table 8

Structure of the securities portfolio of non-venture CII, by the type of funds, as of 30 September 2007, UAH M

Types of funds	Shares	Promissory notes	Government bonds-internal loan	Local loan bonds	Corporate bonds	Savings certificates	Total
Open-end	99,95	3,13	5,37	17,65	48,62	0,00	174,72
Interval	64,68	1,12	1,27	7,36	23,87	0,00	98,30
Close-end	1 088,69	55,62	0,00	2,86	510,12	18,00	1 675,30
Total	1 253,32	59,88	6,64	27,87	582,61	18,00	1 948,33

Therefore, an active development of the collective investments market over nine months of 2007 was due to a positive impact of a number of external environment factors.