



## Open-End Collective Investment Institutions: Achievements of 2007 and Prerequisites for Future Growth

2007 was a year of rapid development of an entire Ukrainian securities market and its collective investment institutions' segment in particular. The key organized market stock indicator – PFTS index – grew by over 135%, which turned out to be one of the biggest indicators in the world.

An unprecedented PFTS index growth had a positive impact on the quantitative parameters of the open-end collective investment institutions' market, as well as on the performance of open-end CII.

During the last year, quite a few new open-end CII were established: as of 1 January 2007 only 10 open-end collective investment institutions were registered, whilst at year end there were already 27 of them (Table 1).

*Table 1*

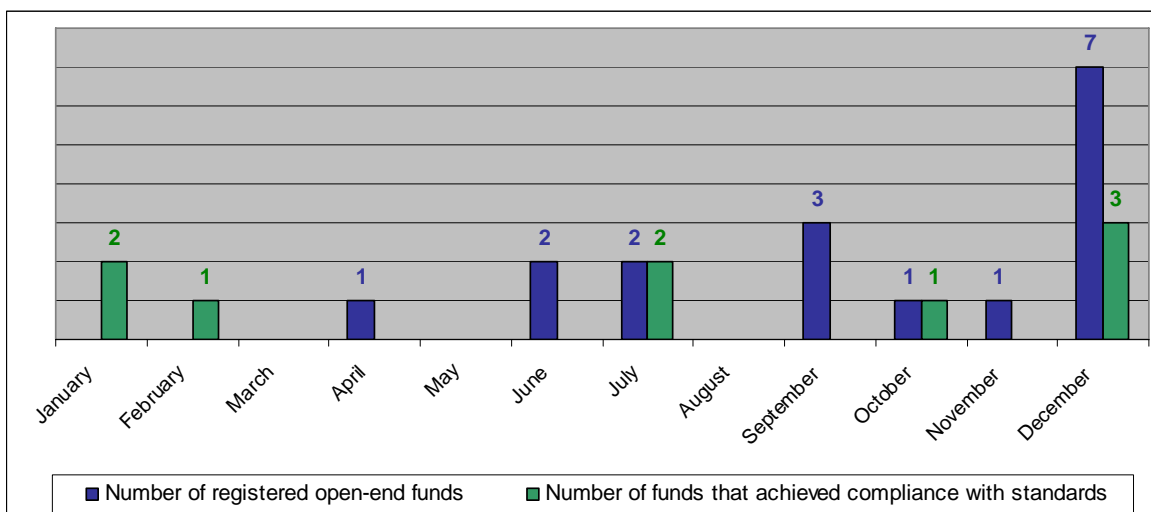
*Open-end CII registered during 2007*

No.	CII Name*	Asset Management Company (AMC) Name	Registration date
1	"Magistr-Balanced Fund"	LLC AMC "Magistr"	17.04.2007
2	"Delta-Money Market Fund"	LLC AMC "Delta-Capital"	19.06.2007
3	"Delta-Balanced Fund"		19.06.2007
4	"Concord Stability"	LLC AMC "Concorde Asset Management"	06.07.2007
5	"Concord Prosperity"		06.07.2007
6	"MILLENIUМ CAPITAL PROTECTION"	LLC AMC "Millenium Asset Management"	05.09.2007
7	"MILLENIUМ BALANCED"		05.09.2007
8	"AURORA-Growth Fund"	LLC "MC "Aurora"	17.09.2007
9	"Premium-Index Fund"	LLC "Management Company "Sokrat"	23.10.2007
10	"OTP Classic"	LLC "AMC "OTP Capital"	27.11.2007
11	"TASK Resource"	LLC "AMC "TASK-Invest"	13.12.2007
12	"SEM Agio"	LLC "AMC "Commonwealth Asset Management"	13.12.2007
13	"SEM Index"		13.12.2007
14	"PIO GLOBAL – Money Market Fund RELIABLE"	LLC " AMC "PIO GLOBAL Ukraine"	17.12.2007
15	"PIO GLOBAL – Balanced Fund OPTIMAL "		17.12.2007
16	"PIO GLOBAL – LIQUID EQUITIES Fund"		17.12.2007
17	"PATRON"	LLC "All-Ukrainian Management Company"	27.12.2007

\* All CII listed as open-end diversified share (unit) investment funds

At that, the tempo of new open-end CII creation and entering the market increased in the second half-year. For instance, in the first quarter three funds reached compliance with the standards, in the third quarter – two funds, and in the fourth quarter – already four funds (Chart 1).

The number of asset management companies exercising management of open-end collective investment institutions grew from seven to seventeen over year.



**Chart 1. Dynamics of creation of new open-end CII and reaching compliance with the standards by them over 2007**

During the year, the following new AMC entered the open-end CII market: "Bonum Group", "SEB Asset Management Ukraine", "Magistr", "Delta-Capital" and "Concord Asset Management".

Present analytical research is primarily focused on the performance results of eleven open-end investment funds, which not only reached compliance with the standards in 2007, but also were in operation for at least one month (in other words, reached compliance with the standards before December 1). Three open-end CII – "*Delta-Balanced Fund*" and "*Delta-Money Market Fund*" (registration date – 19.06.2007, date of reaching compliance with the standards – 04.12.2007), as well as "*Concorde Stability*" (registration – 06.07.2007, date of reaching compliance with the standards – 27.12.2007) – are not represented in the research, as far as their operation period is too small to compare their performance with the other funds'.

Nominal value of open-end funds' investment certificates is usually UAH 100 or 1000. At that, the entry "threshold", in other words, the minimal amount for which the funds' securities may be purchased, comprises UAH 1000. Therefore, from financial standing, it is very simple to become an open-end CII participant. Along with that, high inflation rate and an raise of population's income in 2007 considerably increased attractiveness of collective investment institutions for Ukrainian legal entities and natural persons, furthered citizens' interest in the funds, in particular, open-end ones. Thus, a considerable increase of these institutions' number is due to a high demand, which started transforming from potential into real one particularly during the reporting year.

The **volume** of open-end CIIs' **registered issuances** also underwent a significant growth: as of 31.12.2007 it comprised about UAH 2 billion, which is almost twice as much as in 2006.

Information on the time of creation of open-end CII and entering the market by them, as well as on their key performance results (net asset value and rate of return) is provided in Table 2.

**Table 2**

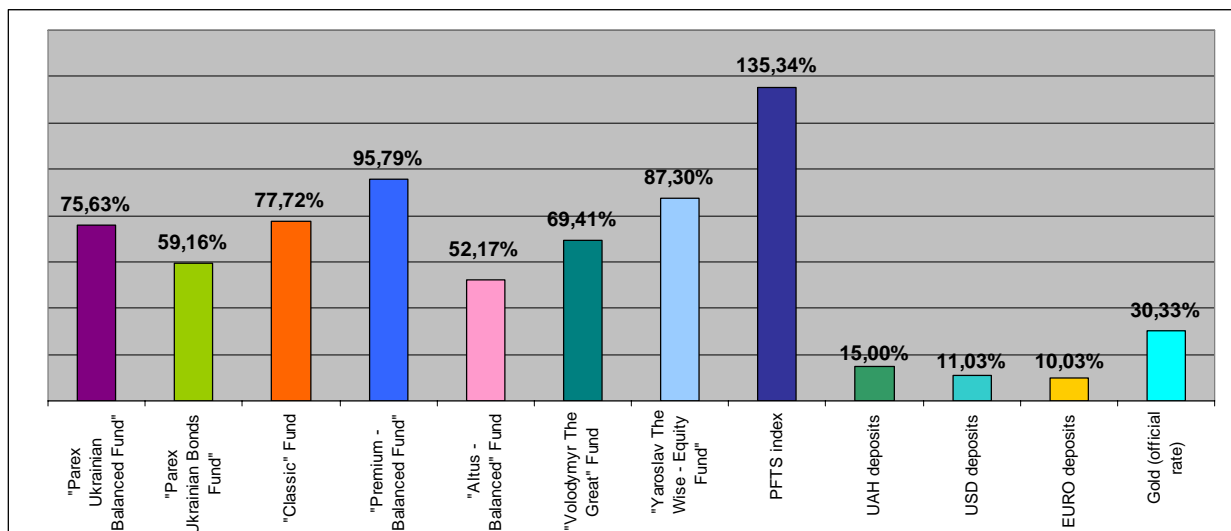
**Open-End Investment Funds as of 12.31.2007**

	"Classic" Fund	"Premium-Balanced Fund"	"Parex Ukrainian Bond Fund"	"Parex Ukrainian Balanced Fund"	"Altus-Balanced" Fund	"Volodymyr The Great" Fund	"Yaroslav The Wise – Equity Fund"	"Bonum Optimum" Fund	"SEB Money Market Fund"	"SEB Balanced Fund"	"Magistr-Balanced Fund"
<i>Asset management company (AMC)</i>	OJSC "Kinto"	LLC "Management Company "Sokrat"	LLC AMC JSPF "Parex Asset Management Ukraine"		LLC AMC "Altus Assets Activities"	LLC "AMC "Univer Management"		LLC "AMC "Bonum Group"	LLC AMC "SEB Asset Management Ukraine"		LLC AMC "Magistr"
<i>Registration date</i>	11.05.2004	20.05.2005	13.06.2005	13.06.2005	21.04.2006	21.07.2006	21.07.2006	08.09.2006	15.12.2006	15.12.2006	17.04.2007
<i>Date of reaching compliance with the standards</i>	14.07.2004	13.10.2005	06.12.2005	15.01.2006	22.10.2006	10.01.2007	10.01.2007	27.02.2007	09.07.2007	09.07.2007	09.10.2007
<i>IC nominal value, UAH</i>	100	1000	10	10	1000	1000	1000	100	1000	100	1000
<i>Net asset value</i>	108 669 343,37	27 814 226,68	19 746 922,56	246 957 584,88	31 883 389,54	1 733 037,59	4 094 420,78	4 162 500,50	3 619 458,16	12 796 693,44	1 508 395,04
<i>Number of placed IC, items</i>	206 530	9 892	1 005 403	11 053 599	18 075	1 023	2 186	27 642	3 198	106 309	1 226
<i>Net asset value per one IC, UAH</i>	526,17	2 811,79	19,64	22,34	1763,95	1694,07	1873,02	150,59	1131,79	120,37	1230,34
<i>Rate of return on investments into fund in 2007</i>	77,72%	95,79%	59,16%	75,63%	52,17%	69,41%	87,30%	No data*	No data*	No data*	No data*
<i>Average annual rate of return on investments into fund since the date of reaching compliance with the standards</i>	122,84%	77,75%	46,41%	61,09%	60,30%	71,47%	84,79%	61,23%	**	**	**

\* No data for calculation.

\*\*Insofar as the funds only recently reached compliance with the standards, this indicator will not be representative.

As it can be seen from Table 2, the *rate of return* of funds for year 2007 varies considerably. Its range in case of seven market participants that reached compliance with the standards before the year beginning (5 in 2006 and 2 in January 2007) is between 52% and 96%. At that, the coefficient of variation of the rate of return comprised 0,21 (in 2006 – 0,13). Annual rate of return of the funds, as well as the rate of return on bank deposits and gold is represented in Chart 2.



**Chart 2. Rate of return on investments into open-end funds, on bank deposits and precious metals (gold) over the period 01.01.2007 through 01.01.2008**

The distance between the leader by the rate of return - *"Premium – Balanced Fund"* (95,79%) and other market participants was increasing over the year. In September, after August stock market adjustment, this fund's rate of return exceeded the average Chart for open-end CII 2,7 times. That furthered a rapid growth of *the quantity of placed securities* of *"Premium-Balanced Fund"* starting from October. The growth was supported by the rate of return in October (14,9%), which exceeded PFTS index growth (13,8%).

*"Yaroslav The Wise – Equity Fund"* came second (87,3%). This fund entered the market at the start of 2007, during the period of active stock market (PFTS index) growth commenced by the end of 2006. At the same time, *"Volodymyr The Great"* Fund, which is managed by the same AMC ("Univer Management"), was the fifth one with its rate of return of 69,41% for the year, which comes from a less well-structured asset portfolio. It is worth mentioning that the number of the securities of *"Volodymyr The Great"* Fund as of 31.12.2007 is approximately twice smaller than of its above-mentioned peer's. And the gap between those two funds started growing in October 2007. That could be explained by the fact that *"Yaroslav The Wise – Equity Fund"*, after a quite significant fall in August (-1,63%), not only renewed the growth rate of its investment certificates' value, but also outran - by the rate of return in September – *"Volodymyr The Great"* Fund (2,46% versus 2,16%), having become a leader of the month. Subsequent accelerated growth of the volumes of placed certificates of *"Yaroslav The Wise – Equity Fund"* is due to a very high rate of return in October, which exceeded an average rate of return in the open-end CII market (12,75% and 11,74% respectively), as well as in November, when the Fund was an unquestionable leader by the rate of return of 3,78%, whilst an average rate of return then was 0,78%, and PFTS index dropped by 5,82%.

*"Classic"* Fund came third by the growth of investment certificates' value in 2007 (77,72%). The dynamics of the number of this Fund's ICs in circulation was more or less even over the year. A relevantly insignificant drop occurred only in April (by 3,6%).

However, that was typical also of two other “old” funds “*Premium - Balanced Fund*” (-10,4%) and “*Parex Ukrainian Bond Fund*” (-0,9%).

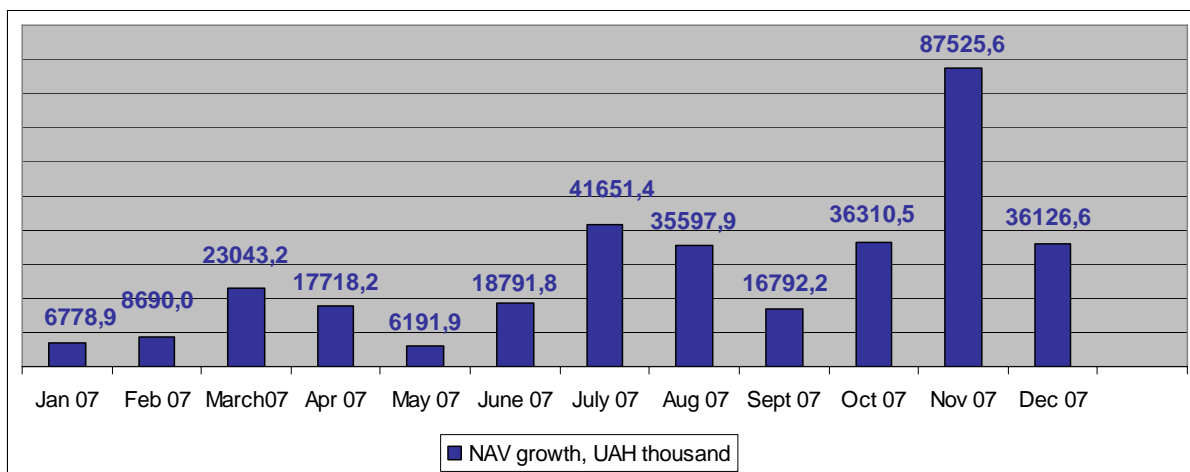
It should be pointed out that during one of the hardest periods of the year – in August – when the stock market dropped by 9,3%, two out of seven open-end funds, which were in operation at that time, demonstrated positive rate of return – “*Premium - Balanced Fund*” (1,29%) and “*Classic*” (0,24%).

As to the **average annual rate of return since the date of reaching compliance with the standards**, it is “*Classic*” Fund that, just as in 2006, demonstrated the best result (122,84%). At that, in 2007, the Fund increased this indicator more than 1,5 times, whilst “*Premium – Balanced Fund*” – 2,4 times, “*Parex Ukrainian Balanced Fund*” – 2,3 times, “*Parex Ukrainian Bond Fund*” – 2,1 times. Less impressive growth demonstrated by the oldest fund - “*Classic*” – is due to a long period of its operation. In other words, during several previous years (with exception of 2004) PFTS index growth and accompanying organized market growth, which substantially affect the rate of return of open-end funds, were considerably less than in 2007 (approximately 35-40% against 135%).

Among the funds that were in operation for a whole year, it is “*Altus-Balanced*” that stands out by the average annual rate of return since the date of reaching compliance with the standards: its indicator in 2007 went down by 6,2 per cent (from 66,51% a year ago). This is due to the fact that at 2006 end the fund’s average annual rate of return was not representative, as far as the fund had been in operation for two months only by that time. Furthermore, end of 2006 was accompanied by a rapid growth of the stock market on the whole, and of the rate of return of open-end CII in particular. During 2007, that tendency was not permanent – there were periods of slower growth and falls. Average annual rate of return of “*Altus – Balanced*” was also negatively affected by comparatively low rate of return in 2007, which comprised 52,17%.

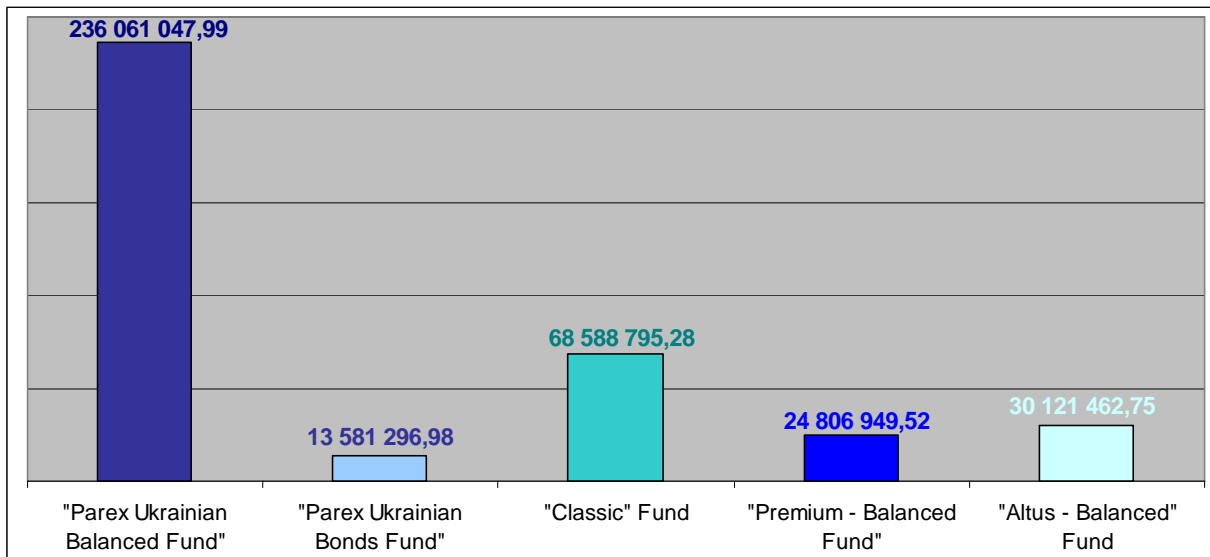
As to the dynamics of open-end funds’ **net asset value**, as of 31.12.2007, aggregate NAV of eleven open-end CII at reporting year end comprised almost UAH 463 M (and, taking into account the funds that did not reach compliance in December, – almost UAH 501 M). In such way, NAV growth over the last year reached 647,8% (UAH 401,074,271 for eleven funds), in other words, net assets grew almost 7,5 times.

Net assets of all open-end CII were growing at different speed, which became more intense in June and avoided passive phase typical of stock market in summer. The greatest indicator of NAV growth was observed in October, which was due not only to an increasing number of investors to the funds, but also to the highest monthly rate of return since the beginning of 2007 (and, as it turned out later, for an entire year) (Chart3).



**Chart 3. Open-end funds’ net asset value growth for each month of 2007**

The key contribution (58,9%) to the net asset value growth was made by *"Parex Ukrainian Balanced Fund"*, and its share in the NAV growth of the five funds, which had reached compliance with the standards before 2007, comprised 63,3% (Chart4).

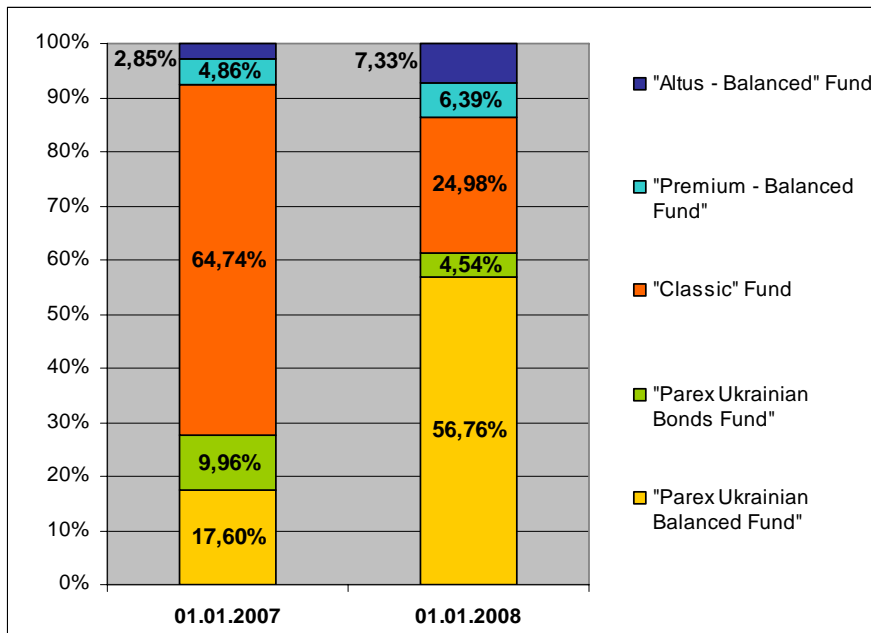


**Chart 4. Net asset value growth of open-end CII over 2007**  
(only for the funds that reached compliance with the standards before 1 January 2007)

An extraordinary growth of the net assets of this fund was primarily due to an almost 13-time increase of the number of placed certificates over 2007 (from 856 955 as of 1 January to 11 053 599 as of 31 December). At that, about 80% of the fund's investors are nonresidents, and almost all of them are legal entities. It should be noted that the number of securities of *"Parex Ukrainian Balanced Fund"* in circulation was growing almost evenly in the course of the year, with exception of crisis August and November.

An accelerated growth of the fund's NAV resulted in its further expansion in the open-end CII market: as of 31.12.2007 its share in the aggregate net assets of open-end funds comprised 53,34% (almost UAH 247 M), and among five open-end CII that were in operation for an entire year 2007, – 56,76%. Accordingly, *"Classic"* Fund continued losing its share: at year end it comprised 23,47% among eleven open-end CII (and almost 25% among five "old" funds) (Chart5). And that occurred despite *"Classic"* Fund's growth of NAV for 2007 that comprised over 171%. However, if at the start of the year this fund was the leader both by NAV indicator, and by its growth, by year end it was squeezed out by *"Parex Ukrainian Balanced Fund"*.

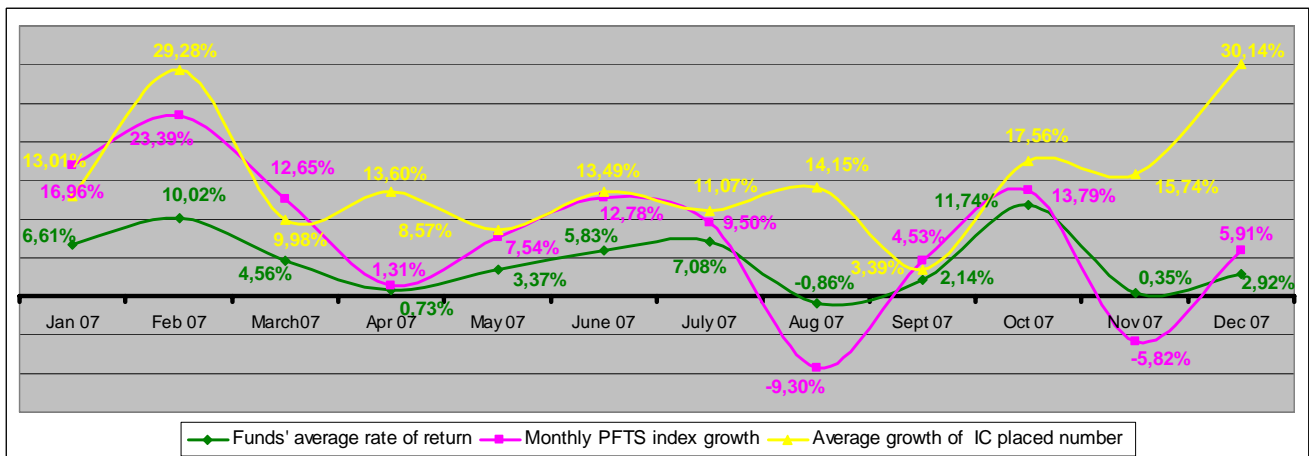
An active process of market entering by new participants conditioned a decrease of concentration in the market of open-end CII: an average share of one fund comprises approximately 9% (and taking into account three funds that reached compliance with the standards in December – somewhat above 7%). At the same time, a tendency characteristic of the previous years - return to the monopolization of the market by one fund - is observed. It is only the leader's name that has changed.



**Chart 5. Shares of funds within the total value of the net assets of open-end CII as of 01.01.2007 and 01.01.2008**

(only for the funds that reached compliance with the standards before 1 January 2007)

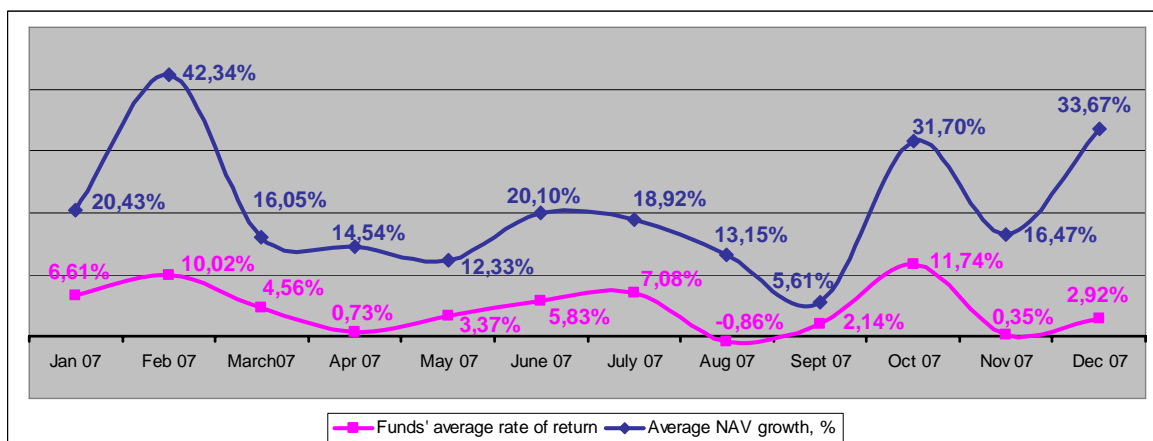
More active investors' behavior and stock market growth by year end conditioned an improvement of the situation in collective investment area, which, in its turn, resulted in a renewal of open-end CIIs' growth. December results demonstrate that a significant NAV growth for that month (Chart 3) was primarily due to an increase of the number of placed investment certificates of the national funds (Chart6). Average rate of return, in spite of its growth compared to November by 2,67 per cent, was not a significant factor of open-end CII's NAV growth during the last month of the year.



**Chart 6. Dynamics of average rate of return, average growth of the number of placed investment certificates of open-end funds, and of PFTS index growth over 2007**

PFTS index dynamics correlates with the trend of open-end funds' rate of return. However, due to the diversification of these CIIs' portfolio and, accordingly, a lower risk level, the fluctuations of the funds' rate of return are smaller. At the same time, in April, July, September and October, an average growth of open-end CII certificates' value was nearing monthly indicator's growth.

It is worth noting that the correlation between the dynamics of average monthly indicators of the NAV growth and the rate of return of open-end funds manifested itself in 2007. In such way, an increase of the rate of return of certificates was nearly always accompanied by an enhanced growth of the net assets of open-end CII (Chart7).



**Chart 7. Dynamics of an average rate of return of open-end funds and of their NAV growth over 2007**

The exceptions included April, May, July and September. In April, NAV was growing due to an increase of the volume of placed securities of the funds, as the rate of return was extremely low. That was occurring when the stock market was flat as a result of political crisis, and investors took advantage of the situation to expand their participation in the funds.

In September, the situation was opposite, in other words, it was an increase of the rate of return that had an impact on funds' NAV growth, but, after the August adjustment, it did not succeed in maintaining the speed of net assets growth that had been observed over June - July. Investors of "Classic" Fund and "Parex Ukrainian Balanced Fund" were among the first to take an advantage of the August market fall: their number of placed certificates in September went up by 10% and 21% accordingly.

As to the participation of Ukrainian citizens in open-end investment funds, as of 31.12.2007, the value of net assets belonging to natural persons – residents amounted to UAH 178,88 M, which demonstrates an increase by 447,66% over one year (from UAH 32,66 M at 2006 year end). In the meanwhile, aggregate net assets of open CII over 2007 grew by 653,29%. As a result, over 2007, the share of NAV of open-end CII belonging to the citizens (residents) decreased by 11,45 per cent and amounted to 40,37%. We will also note that the share of natural persons –non-residents decreased from 1,02% to 0,45% over the year.

The dynamics of the level of participation of natural persons – residents in open-end funds during 2007 is presented in Table 3.

Table 3

**Dynamics of citizens' investments into open-end funds in 2007  
(by share of NAV belonging to natural persons)**

CII name*	Share of the net assets of open-end CII is owned by natural persons – residents, % of the total NAV of the fund				
	31.12.2006	31.03.2007	30.06.2007	30.09.2007	31.12.2007
"Classic" Fund	67,78%	70,63%	70,86%	75,41%	76,46%
"Premium – Balanced Fund"	72,48%	65,64%	76,68%	88,10%	90,29%
"Parex Ukrainian Balanced Fund"	18,57%	14,81%	18,07%	20,17%	21,68%
"Parex Ukrainian Bond Fund"	0,29%	2,07%	7,73%	8,27%	4,12%
"Altus-Balanced"	67,11%	38,89%	34,56%	42,63%	(**)
"Volodymyr The Great"	0,97%	4,67%	8,77%	12,24%	46,24%
"Yaroslav The Wise – Equity Fund"	10,23%	13,64%	21,01%	39,17%	73,92%
"Bonum Optimum" Fund	2,44%	12,80%	12,12%	17,10%	41,78%
"SEB Balanced Fund"	no data	no data	81,13%	84,37%	54,40%
"SEB Money Market Fund"	no data	no data	8,59%	11,36%	6,66%
"Magistr- Balanced" Fund	no data	no data	no data	no data	23,33%
"Delta- Balanced Fund"	no data	no data	no data	no data	2,98%
"Delta-Money Market Fund"	no data	no data	no data	no data	35,27%

\* All CII listed are open-end diversified share (unit) funds

\*\* AMC did not provide the information

The efficiency of an investment fund's operations is characterized not only by the rate of return indicator, but also by its correlation with the level of risk run by the investor. One of "risk/ return" indicators is Sharpe ratio, which reflects a correlation between the return generated by the fund above risk-free level and the fund's risk level. The best indicator here was demonstrated by *"Premium – Balanced Fund"*. In other words, this fund simultaneously demonstrated the highest rate of return for the year, and the highest return per unit of risk (see Table 4).

Table 4

**Rate of return and risk correlation based on Sharpe ratio for open-end funds in 2007\***

Indicator	"Parex Ukrainian Balanced Fund "	"Parex Ukrainian Bond Fund "	Fund "Classic"	"Premium – Balanced Fund"	Fund "Altus-Balanced"
Average monthly rate of return over the last year	4,94%	3,98%	5,36%	6,06%	4,21%
Standard deviation of the rate of return	4,13%	3,32%	4,45%	3,76%	4,60%
Sharpe ratio	1,0345	0,9980	1,0544	1,4349	0,7701

\* risk-free rate based on the NBU rate as of 31.12.2007 p. – 8,0%)

The analysis conducted demonstrates the rate of return of open CII free of the effect of inflation and taxation. The real rate of return of investors into open-end investment funds for 2007 and the effect of the factors mentioned are presented in Table 5 (provided the investor exits the fund at year end).

**Table 5**

**Rate of return of investments into open-end funds, bank deposits and precious metals (gold) since 3 01.01.2007 through 01.01.2008, with the effect of taxation and inflation**

<i>Open-end CII</i>							<i>Bank deposits</i>			<i>Gold (at official rate)</i>
"Parex Ukrainian Balanced Fund"	"Parex Ukrainian Bond Fund"	Fund "Classic"	"Premium – Balanced Fund"	Fund "Altus-Balanced"	Fund "Volodymyr The Great"	"Yaroslav The Wise – Equity Fund"	UAH	USD	EURO	
75,63%	59,16%	77,72%	95,79%	52,17%	69,41%	87,30%	15,00%	11,03%	10,03%	30,33%
<i>Rate of return, with effect of taxation</i>										
64,28%	50,28%	66,07%	81,42%	44,35%	59,00%	74,21%	15,00%	11,03%	10,03%	25,78%
<i>Rate of return, with effect of taxation (16,6% for 2007)</i>										
40,90%	28,89%	42,42%	55,59%	23,80%	36,36%	49,41%	-1,37%	-4,77%	-5,64%	7,87%

Summarizing the analysis that has been conducted, we would like to draw some conclusions.

For Ukrainian open-end CII 2007 became a period of incredible growth and achievements. One of them is the rate of return of open-end funds, which on average comprised 73,88% per annum. During the year, the tendency of leaving behind other market participants by one fund as to the NAV and its growth indicators, and by another fund – as to the rate of return, was preserved. Open-end CII ensured the rate of return within 52-96% per annum, which, as result, ensured a real profit for the investors in amount starting from 20% per annum.

Another characteristic feature of the development of the open-end CII industry in 2007 – an appearance of new subtypes of funds with respective investment strategies: index, money market, and equity funds. That adds to the diversity of open-end CII due to different asset combinations in their portfolios within the limits of diversification envisaged by the legislation. However, in view of a considerably limited set of stock instruments in the Ukrainian market, the make-up of different funds' portfolios does not differ that much at the moment.

An accelerated dynamics of the open-end CII market' quantitative parameters growth in 2007 resulted both from energizing advertising and popularization activities aimed at attraction of investors, particularly of Ukrainian citizens, and a considerable economic growth of Ukraine over the year, which caused not only an increase of citizens' incomes, but also a considerable inflation rate. Among the factors that affected the market expansion were qualitative indicators of funds, in particular, the rate of return supported by dramatic stock market growth.

Advertising and popularization activities conducted by the collective investment market participants, rising overall financial culture of the population, growing trust towards the funds, attractive returns and high inflation in 2007 – all of these were the factors the synergy of which made possible the achievements demonstrated by open-end funds' performance results at year end. The taxation system, which sets forth unequal conditions for investors into banks and CII (the latter are to pay income tax after selling securities of the fund belonging to them), also failed to prevent new investors from coming into funds.

2007 laid a strong foundation for the qualitative changes in the market. Activities of open-end funds drew attention of Ukrainian and foreign investors, and their performance results have made their IC the most attractive financial products for the Ukrainian citizens and enterprises. Therefore, we expect that the number of new investors into open-end CII will be growing, as well as the participation of those who already have some experience as CII investors, will expand.