

Analytical Review of the Collective Investments Market in 2007

1. Ukrainian Stock Market

2007 was a year of intensive growth of the Ukrainian stock market, which became second by the rate of return after the Chinese market. PFTS index growth for the period comprised 135% (Table 1), which more than three times exceeded 2006 growth. The mortgage crisis that started in the USA in August 2007 and spreaded to the majority of world financial markets, to a certain extent affected Ukrainian stock market as well, having slowed down PFTS index growth in the IVth quarter, which nevertheless remained significant and reached 13,5% (54% per annum).

Table 1

Stock indices of national markets in 2007

Index	31.12.2006	31.12.2007	Annual rate of return
PFTS (Ukraine)	498,86	1174,02	135,34%
RTS (Russia)	1921,92	3169,23	64,90%
HANG SENG (China)	19964,72	27812,65	39,31%
WSE WIG (Poland)	50411,82	55702,46	10,49%
DAX (Germany)	6596,92	8067,32	22,29%
S&P 500 (USA)	1416,63	1449,89	2,35%
FTSE 100 (Great Britain)	6220,8	6456,9	3,80%
NIKKEI 225 (Japan)	17225,83	15307,78	-11,13%

Such situation in the stock market, which is the key place of investments of venture, as well as non-venture funds, explains a rapid growth of the collective investments market in 2007 in terms of the number of market entities and the volumes of investments attracted thereto, as well as of the rate of return on investments.

2. AMC and CII Number

The number of asset management companies in 2007 grew by 46,5% and at the end of the year there were 334 such companies (Chart 1). An average number of CII per one AMC increased from 2,3 at the beginning of the year to 2,5 at the end of the year. An average value of assets managed by one AMC went up by 69,4% and at the end of the year comprised UAH 127,4 M.

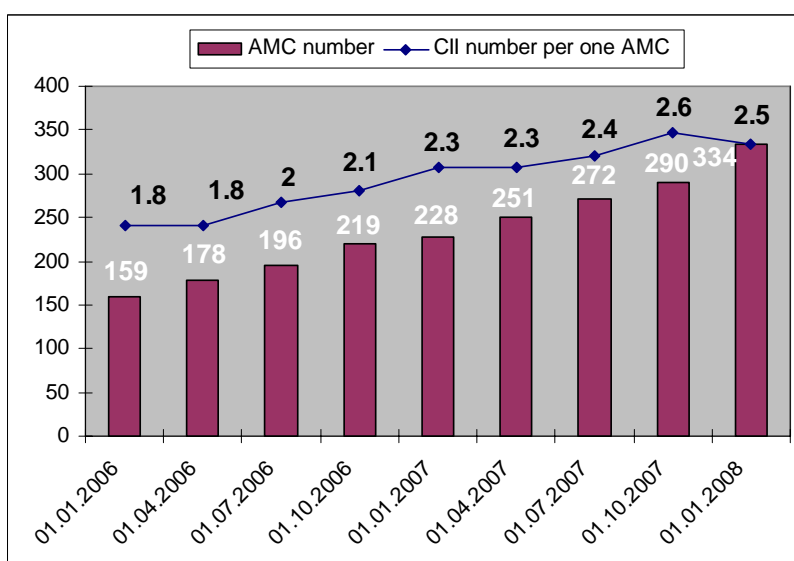


Chart 1. AMC and CII number dynamics per one AMC in 2006-2007

According to the data of the Single State Registry of Collective Investment Institutions, the number of CII in 2007 grew by 61% - from 519 funds at year beginning to 834 funds at year end (Table 2). The greatest growth in relative terms (+170%) was demonstrated by open-end CII: from 10 at year beginning to 27 – at year end. That is an evidence of growing demand for such CII, which is formed by investors-newcomers who chose most liquid and least risky instruments for investment.

An average size of CII assets at 2007 end comprised UAH 48,9 M, which is by 48,63% more than last year.

Table 2

CII number dynamics in 2007 by the categories and types of CII

Period	Total	Share Investment Funds (SIF)					Corporate Investment Funds (CIF)	
		Open-end	Interval	Close-end diversified	Close-end non-diversified	Venture	Close-end non-diversified	Venture
01.01.2007	519	10	25	3	29	377	42	33
31.12.2007	834	27	35	4	30	603	88	47
Growth	61%	170%	40%	33%	3%	60%	110%	42%

3. Regional Distribution of AMC and CII

Among the regions, these are Kyiv and Kyiv Region that lead both by the number of AMC and CII and by the total value of investment funds' assets in the management, where 254 AMC (Chart 2) and 69,25% of CII (Chart 3) are located, whose assets comprise 74,99% of the total asset volume (Chart 4).

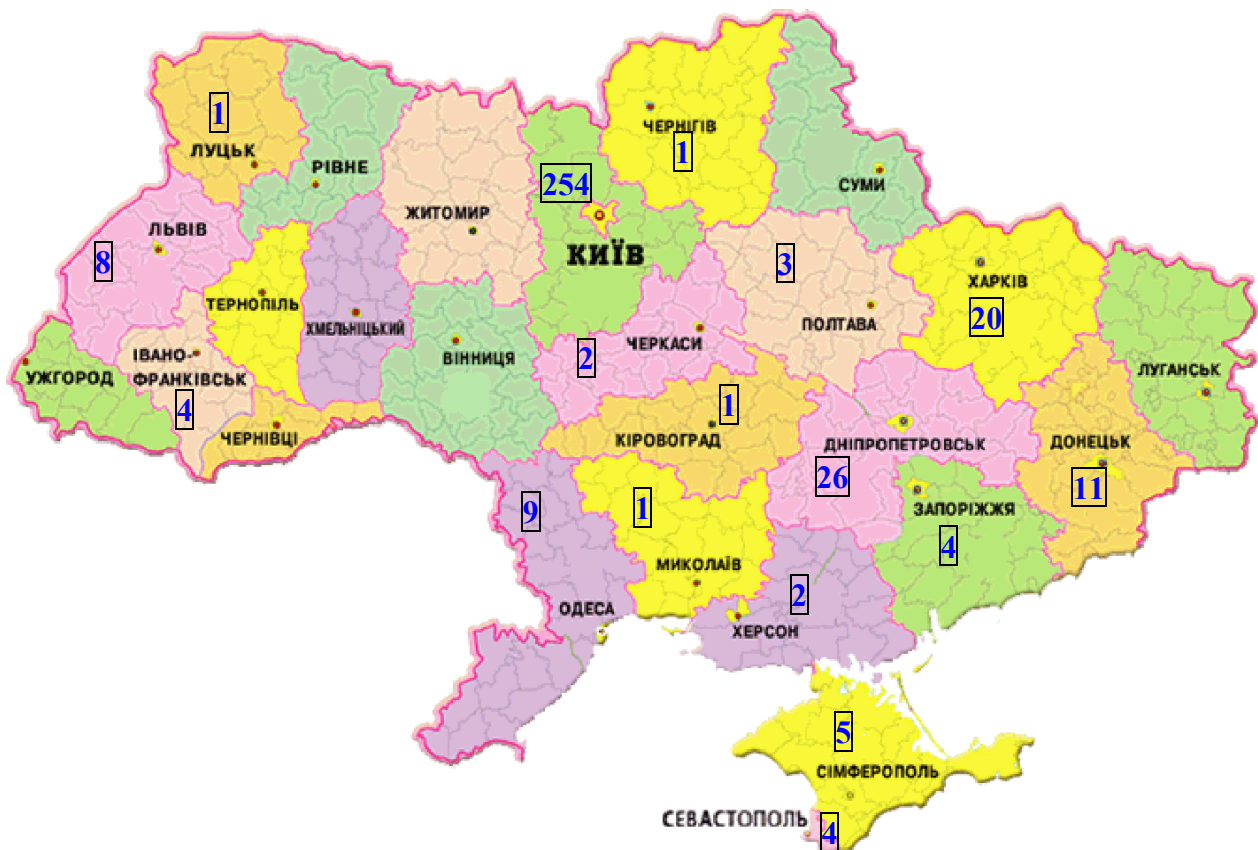


Chart 2. Regional distribution of AMC as of 31.12.2007

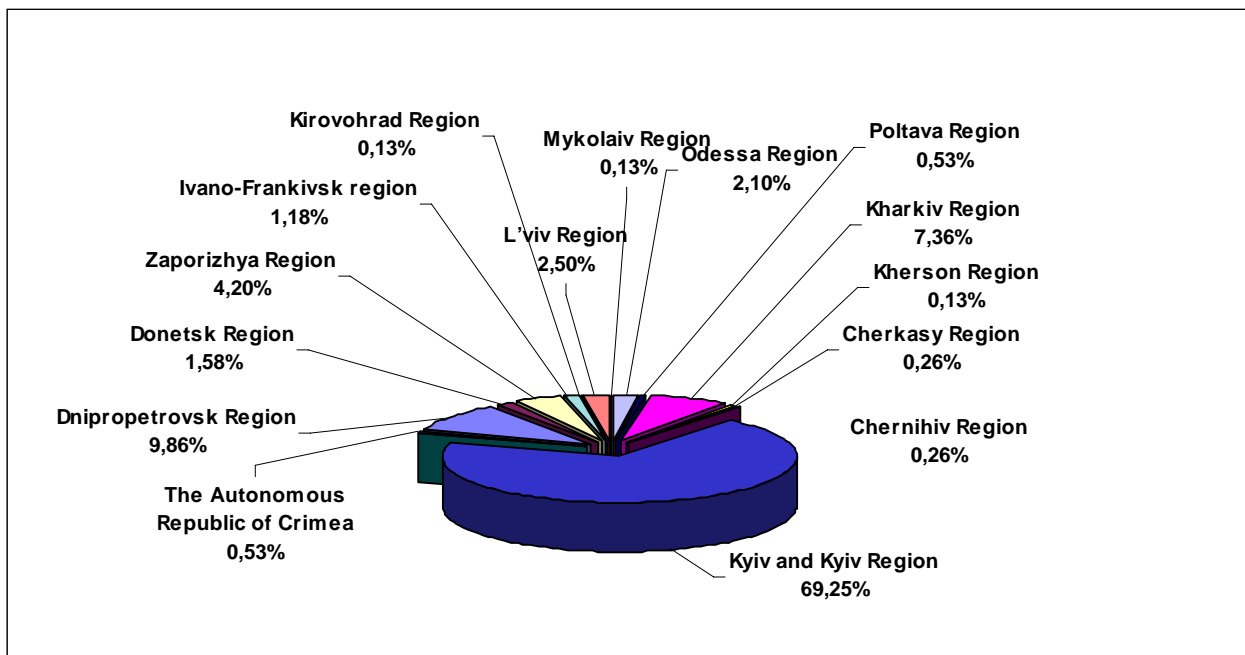


Chart 3. Distribution of the number of CII by the regions of Ukraine as of 31.12.2007.

Second place by asset value is held by Kharkiv Region (7,36% of CII and 8,97% of assets), and by CII number – Dnipropetrovsk Region (9,86% of CII and 6,22% of assets).

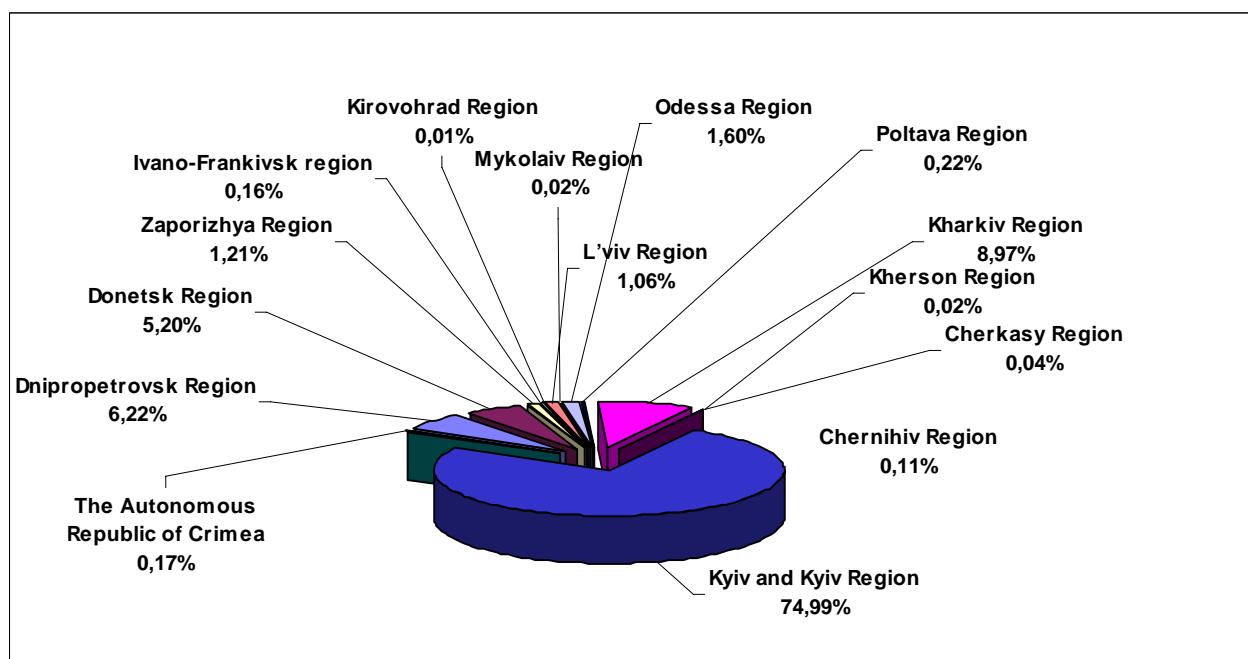


Chart 4. Distribution of CII assets by the regions of Ukraine as of 31.12.2007

4. CII Asset Value

Aggregate CII asset value in 2007 went up by 137,85% and amounted to UAH 40 780,38M (Chart 5). Note that the greatest growth, about 40%, occurred in the fourth quarter, which is probably is due to investors' response to the positive news relating to the Ukrainian securities market and CII returns during the first, second and third quarters.

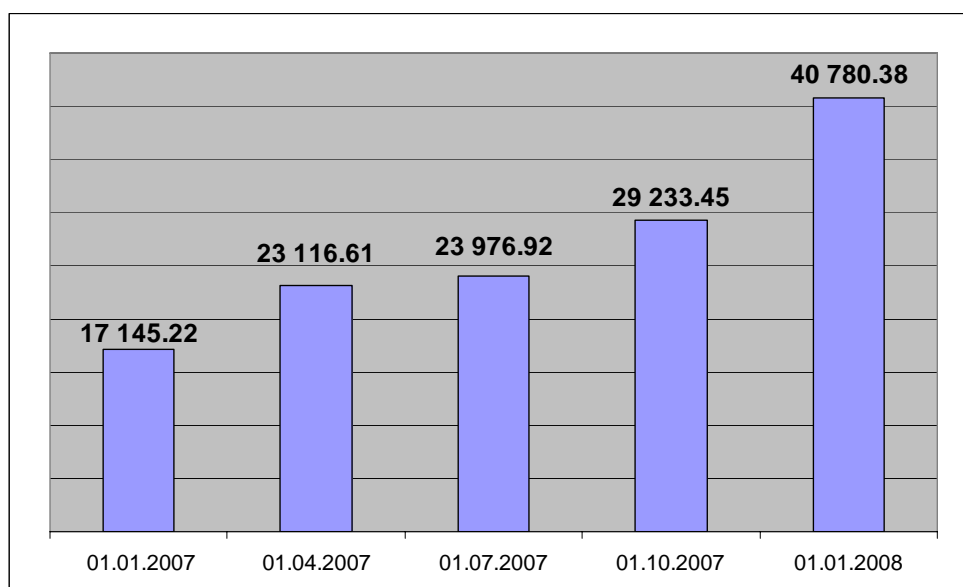


Chart 5. CII asset value dynamics in 2007, UAH M

As a result of such rapid growth, the share of CII assets within the GDP went up from 3,15% to 5,82% (+84,68%), whilst the share of funds attracted to the banking system within the GDP grew from 33,86% to 39,92% (+17,9%) (Table 3). At that, the ratio of CII assets to the funds attracted by banks during 2007, increased from 9,3% to 14,6%.

Table 3

Volumes of CII assets and moneys attracted to the banking system, compared to GDP in 2007

	31.12.2006		31.12.2007		Growth	Growth of share within GDP
	UAH M	Share within GDP	UAH M	Share within GDP ¹		
Moneys attracted by banks ²	184 234	33,86%	279 738	39,92%	51,8%	17,90%
CII assets	17 145	3,15%	40 780	5,82%	137,9%	84,68%

By the types of funds, the greatest asset value growth in 2007 was demonstrated by open-end CII, whose aggregate asset value went up by a 821,87% and at year end comprised UAH 571,93 M (Table 4). Second place belongs to interval funds whose annual asset growth reached 679,91%. At year end their asset value amounted to UAH 294,65 M.

Venture funds' growth pace was somewhat slower. In 2007, their aggregate asset value grew by 131,12% and comprised UAH 36 451,98 M.

Table 4

CII asset value dynamics by the types of funds in 2007

Funds	31.12.2006, UAH M	31.12.2007, UAH M	Growth for the year
Open-end	62,04	571,93	821,87%
Interval	37,78	294,65	679,91%
Close-end (non-venture)	1 273,59	3 292,76	158,54%
Venture	15 771,81	36 451,98	131,12%
All	17 145,22	40 780,38	137,90%

On the background of an uneven growth of the asset value of different types of funds, their proportion at year end also somewhat changed (Chart 6). Just as before, the lion's share of CII

¹ Calculated by way of approximation by linearization of the State Statistics Committee data on GDP (August-November 2007).

² Based on the NBU data.

assets belongs to venture funds, though over 2007 it somewhat decreased - from 91,99% to 89,76%.

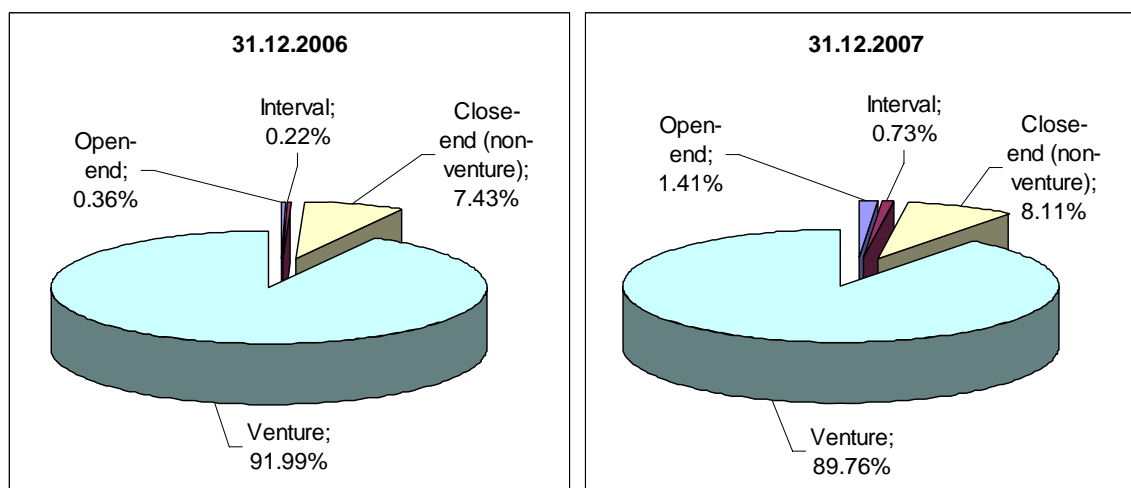


Chart 6. Distribution of CII asset value by the types of funds at 2007 beginning and end

5. Non-venture CII Net Asset Value

Although the value of non-venture funds' assets is relatively small compared to the venture funds', they need to be considered separately, as the moneys are attracted publicly.

2007 became one of the most successful years for non-venture funds both from the viewpoint of the volumes of moneys attracted (Table 5) and of the rate of return generated from their placement (Chart 9).

Table 5

Non-venture CII net asset value dynamics by the types of funds in 2007

Funds	NAV as of 01.01.2007, UAH M	NAV as of 31.12.2007, UAH M	Annual growth
Open-end	61,96	463,18	647,55%
Interval	37,07	241,82	552,33%
Close-end (non-venture)	1 077,82	2 414,9	124,05%
Total	1 176,85	3 119,9	165,11%

An aggregate value of the net assets of non-venture CII in 2007 grew by 165,11% and amounted to UAH 3 119,9 M. That growth occurred primarily due to an increase in the NAV of open-end (+647,55%) and interval CII (+552,33%), despite a comparatively small share of these types of funds' NAV (8,4%) within the aggregate NAV of non-venture funds compared to the share of close-end CIIs' NAV (91,6%). Such a growth of the most liquid types of funds is an evidence of an increasing number of new investors, whose major concerns are liquidity and reliability of their investments, in the CII market.

6. CII Asset Structure

It is expedient to analyze CII asset structure by the types of funds, as specific restrictions on investments are established for the assets of each of them. As it can be seen from Chart 7, the most liquid are the assets of open-end CII, 29,42% of which constitute cash and bank deposits, 3,37% - bonds of the internal state loan, and 6,59% - municipal bonds. The liquidity of interval CII is somewhat lower; and respective asset structure is as follows: cash - 25,95%, bonds of the internal state loan - 0,99%, and municipal bonds - 5,72%.

The key assets of both types of funds are shares and bonds of Ukrainian enterprises, which comprise, accordingly, 37,93% and 20,06% in case of open-end CII and 46,46% and 17,07% in case of interval ones.

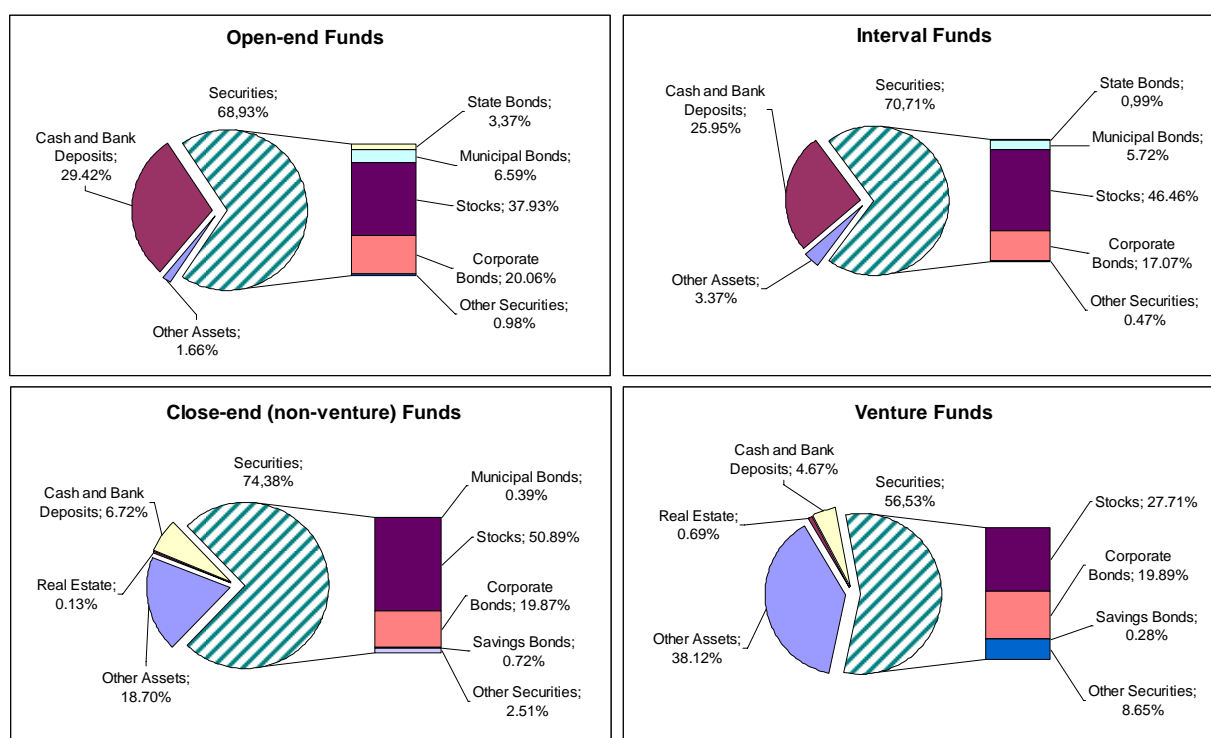


Chart 7. CII asset structure by the types of funds, as of 31.12.2007

Close-end non-venture CII, which attract moneys for a lengthy time period, have considerably lower requirements to their assets' liquidity. Their asset structure is as follows: 50,89% of shares, 19,87% of bonds, and 18,7% of «other assets» whose liquidity is usually low. Cash and bank deposits comprise only 6,72% of close-end non-venture funds' assets.

Due to a specific nature of venture CII's activities, their portfolio structure is less transparent. «Other assets» comprise 38,12% of the portfolio. Furthermore, the securities portfolio of venture funds, which comprises 56,53% of assets, contains 8,65% of «other» securities.

Let us consider the structure of combined CII securities portfolio by the types of funds (Table 6 and Chart 8). The transparency and liquidity of the portfolio may be assessed by the share of securities whose industry belonging is not defined (yellow segments, Chart 8). As it had been expected, by this criterion, it is the combined portfolio of open-end CII that took the first place (2,54%), interval funds took the second place (6,7%), the third place went to close-end non-venture CII (30,47%), and the last one – to venture CII (63,58%).

Table 6
Structure of CII securities portfolio by investment areas, by the types of funds as of 31.12.2007 p.³

Industry	Open-end	Interval	Close-end	Venture
Raw materials	33,29%	19,04%	15,44%	4,08%
Finance	20,05%	15,53%	6,15%	7,83%
Utilities	12,82%	20,71%	14,79%	0,54%
Industry	10,95%	10,27%	13,25%	6,66%
Consumer goods	10,55%	15,39%	11,68%	7,67%
Consumer services	7,84%	7,47%	6,49%	4,70%
Oil and gas	1,22%	3,10%	1,37%	0,03%
Health care	0,67%	0,92%	0,10%	0,30%
Mixed	0,07%	0,06%	0,13%	4,60%
Telecoms	0,00%	0,79%	0,13%	0,01%
Non-defined	2,54%	6,70%	30,47%	63,58%
Total	100,00%	100,00%	100,00%	100,00%

As it can be seen from their respective shares in the combined securities portfolio of non-venture funds, these are the securities of enterprises working in raw materials, finance and utility

³ According to PFTS industry classification.

(energy supply) and industry (according to PFTS classification) that are the most popular ones. In venture CII portfolio these are the securities of the companies working in finance industry and consumer goods that dominate.

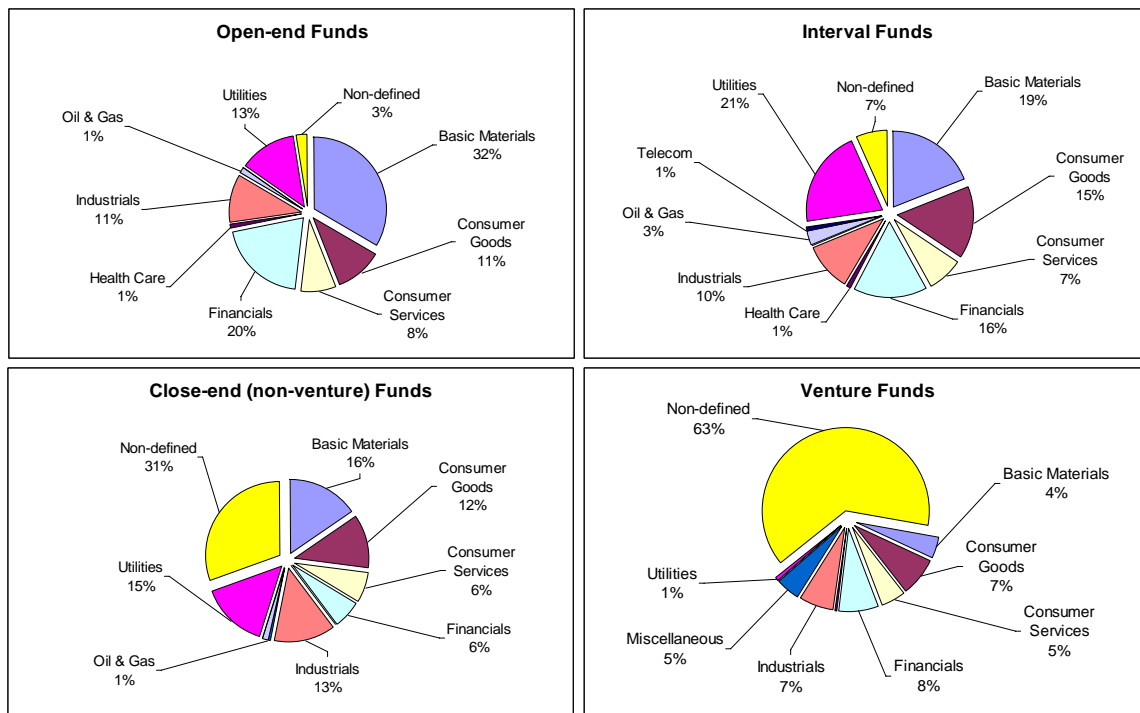


Chart 8. CII securities portfolio structure, by investment industries and types of funds, as of 31.12.2007

Blue chips of the Ukrainian stock market and PFTS index components remain the most popular companies judging by their presence in the portfolios of different CIIs (Table 7).

Table 7

Most popular securities - by presence within CII portfolios as of 31.12.2007 poxy

No.	Security type	Category	Issuer	Number of CII that hold respective securities in their portfolios
1	Shares	Common registered	<i>Azovstal Metallurgical Works</i>	53
2	Shares	Common registered	<i>Ukrnafta</i>	50
3	Shares	Common registered	<i>Interpipe Nyzhniodniprovsky Pipe-Rolling Plant</i>	48
4	Shares	Common registered	<i>Zakhidenergo</i>	48
5	Shares	Common registered	<i>JSCB Ukrsotsbank</i>	45
6	Shares	Common registered	<i>Tsentrenergo</i>	44
7	Shares	Common registered	<i>Azov</i>	43
8	Shares	Common registered	<i>Motor Sich</i>	42
9	Shares	Common registered	<i>Yenakyivsky Metallurgical Works</i>	41
10	Shares	Common registered	<i>Lutsky Automobile Works</i>	36

The leaders among securities by an aggregate value within CII portfolios at 2007 end were the shares of *Ahrobud-1* company and the bonds of *Vyrobnuchy Viector* company (Table 8), which were not included into Table 7. That is due to a considerable share of venture funds' assets in the CII market, when one or two such funds own considerable blocks of those securities. Starting from position no.5 the tendency observed in Table 7 renews.

Most popular securities - by aggregate value in CII portfolios as of 31.12.2007

№	Security type	Category	Issuer	Value of securities purchased by CII, UAH
1	Shares	Common registered	<i>Ahrobud-1</i>	89 853 975,00
2	Corporate bonds	Non-interest bearing, registered	<i>Vyrobnuchy Viector</i>	86 191 383,70
3	Shares	Common registered	<i>Azov</i>	68 091 077,25
4	Corporate bonds	Interest bearing, registered	<i>Yug-Steklo</i>	60 000 242,35
5	Shares	Common registered	<i>Holding Company Luhansteplovoz</i>	48 694 489,92
6	Shares	Common registered	<i>Azovstal Metallurgical Works</i>	46 061 346,03
7	Shares	Common registered	<i>Interpipe Nyzhniodniprovsky Pipe-Rolling Plant</i>	45 705 755,36
8	Shares	Common registered	<i>Zaporiziaoblenergo»</i>	44 777 080,00
9	Shares	Common registered	<i>Dniiprooblenergo</i>	43 020 279,70
10	Shares	Common registered	<i>Ukrnafta</i>	39 244 165,20

7. CII Rate of Return

Against the background of the national stock market growth, the CII asset structure outlined above conditions their high rate of return. As it can be seen from Chart 9, these are venture CII that enjoyed the highest average rate of return in 2007 (100,32%). It should also be pointed out that the range of such fund's rates of return is extremely broad. For instance, the lowest rate of return observed comprised -99,3%, and the highest – +5334%.

Operations of open-end funds may be regarded as the most successful ones (+66,2%). They are not very much behind close-end CII (+83,99%) and have outperformed interval CII (+52,3%), in spite of investment restrictions and the obligation to repurchase investors' certificates on all workdays.

Among other investment instruments, an increase of the price of gold could be mentioned (+30,3%) and the rate of return on deposits in that metal (+36,8%, taking into account an increase of the price of gold). For the first time over quite a lengthy period, annual increase of the prices of real estate was not significant (+12,7%), and, just as the rate of return on the deposits in the national currency (+15%), did not exceed the inflation rate (16,6%).

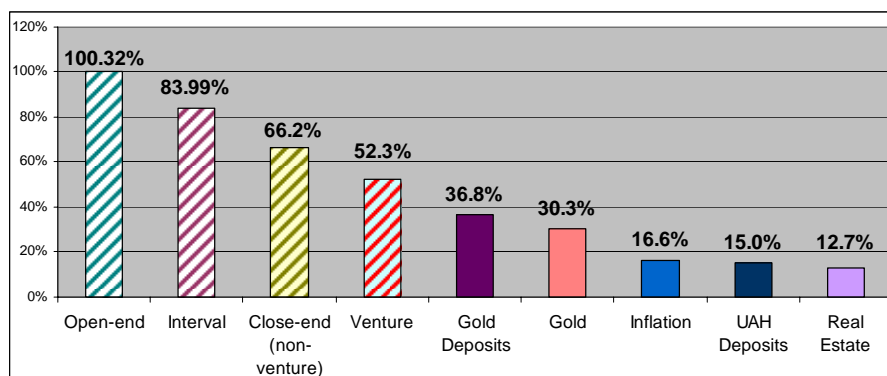


Chart 9. Average rate of return of different types of funds, gold, deposits and real estate in 2007⁴

⁴ The rate of return of deposits in gold is calculated based on deposit rate of 5% per year. The inflation rate provided is based on the State Statistics Committee data. The rate of return on real estate is calculated based on Kyiv real estate value index (Source: <http://www.domik.net/mod/main/indexes/>).

8. CII Costs Structure

An important indicator of investment funds' operations both from the viewpoint of a separate company's competitiveness, and of the CII market on the whole, is the share of costs being subtracted from funds' assets. In 2007, the share of these costs was the greatest in interval CII (2,18%), and the smallest – in venture CII (0,48%) (Table 9). The major stake of these costs (71,98%) - AMC's fee.

Table 9

CII costs structure by the types of funds as of 31.12.2007

	Share	AMC fee	Other fees	Operating costs	Total
Open-end	within NAV	0,94%	0,17%	0,17%	1,28%
	within costs	73,31%	13,47%	13,21%	100,00%
Interval	within NAV	1,29%	0,51%	0,38%	2,18%
	within costs	59,40%	23,22%	17,38%	100,00%
Close-end non-venture	within NAV	0,91%	0,34%	0,16%	1,42%
	within costs	64,26%	24,21%	11,53%	100,00%
Venture	within NAV	0,27%	0,04%	0,05%	0,36%
	within costs	75,43%	11,33%	13,23%	100,00%
Total	within NAV	0,34%	0,07%	0,06%	0,48%
	within costs	71,98%	15,05%	12,97%	100,00%

Compared to 2006, all types of CII decreased the share of costs within NAV. In open-end funds it decreased by 1,62 per cent, in interval funds – by 1,46, in close-end non-venture funds - by 0,62, and in venture funds – by 0,22. Such statistics confirms increasing competition in the CII market.

9. Distribution of Non-venture CII Net Assets by the Types of Owners

As of 31.12.2007, the key investors of non-venture CII were legal entities-residents (49,02% of the aggregate NAV), who made most of their investments into close-end CII (60,59% of close-end funds' NAV). The second place went to the natural persons – residents, whose investments (UAH 1130,96 M) comprised 36,25% of the aggregate NAV of non-venture CII. The greatest share of such investments (73,84%) was found in interval funds. In the third place were legal entities-non-residents (14,12% of the aggregate NAV of non-venture CII) who invested mainly into open-end CII (52,48% of those funds' NAV) .

Table 10

Non-venture CII NAV distribution by the types of investors as of 31.12.2007

Funds	Legal entities-residents	Legal entities non-residents	Natural persons - residents	Natural persons non-residents
Open-end	5,64%	52,48%	41,48%	0,41%
Interval	21,41%	4,11%	73,84%	0,63%
Close-end (non-venture)	60,59%	8,17%	30,59%	0,65%
Total	49,02%	14,12%	36,25%	0,61%

10. AMC Consolidated Balance Sheet

Due to the specific features of AMC operations, their main assets in financial statements are accounts receivable (33,87% of the total assets), short-term (33,31%) and long-term (25,19%) financial investments, cash and equivalents (12,69%), and liabilities and owners' equity – owners' equity (77,18%) and short-term liabilities (17,26%) (Table 11).

In 2007, AMC owners' equity increased by 34,97% and amounted to UAH 2,23 billion. The value of assets in AMC management (40,78 billion) to AMC owner's equity ratio is 18,3,

which is in compliance with the SSMSC standards (<50) and almost twice exceeds that indicator as of 31.12.2006 (9,9). That confirms growing investors' trust in respect of CII.

Table 11

Key items of AMC consolidated balance sheet in 2007

Assets				
	31.12.2006	31.12.2007	Share in balance sheet total	Growth
<i>1. Non-current assets</i>				
Fixed assets	84 563 490.68	141 904 952.20	4.90%	67.81%
Long-term financial investments: equity participation	243 803 855.31	225 309 356.83	7.79%	-7.59%
Other long-term financial investments	308 987 762.53	503 620 848.38	17.40%	62.99%
<i>Total for section I</i>	615 035 424.30	843 393 057.56	29.14%	37.13%
<i>2. Current assets</i>				
Accounts receivable	469 803 558.79	980 049 230.08	33.87%	108.61%
Short-term financial investments	632 790 990.66	964 110 543.69	33.31%	52.36%
Cash and equivalents	194 171 422.89	367 160 628.32	12.69%	89.09%
<i>Total for section II</i>	1 245 235 917.02	2 045 196 537.39	70.67%	64.24%
<i>Total assets</i>	1 863 203 416.59	2 893 938 977.55	100.00%	55.32%
Liabilities and Owners' Equity				
	31.12.2006	31.12.2007	Share in balance sheet total	Growth
<i>1. Owners' equity</i>				
Statutory capital	1 556 741 751.88	2 194 630 050.36	75.84%	40.98%
Income	99 646 677.41	165 597 053.34	5.72%	66.18%
Unpaid capital	75 139 464.35	164 691 577.73	5.69%	119.18%
<i>Total for section I</i>	1 654 884 120.77	2 233 633 691.08	77.18%	34.97%
Short-term liabilities	141 291 539.19	499 487 748.48	17.26%	253.52%
<i>Total owners' equity and liabilities</i>	1 863 203 416.59	2 893 938 977.55	100.00%	55.32%

Unpaid capital within the liabilities and owners' equity of AMC reflects the founders' contributions to the statutory capital outstanding. Its considerable share (5,69% of the balance sheet total) allows to forecast further increase of the value of AMC liabilities and owners' equity and, accordingly, of the assets in AMC management in 2008.

11. NPF Operations

During 2007, NPF assets in AMC management grew by 109,58% - to UAH 242,8 M., and the number of NPF that made contracts with AMC went up by 18,96% and amounted to 69 funds (Table 12). Just as last year, the main share of the NPF market by the number of funds (58), as well as by asset value (UAH 146,99 M or 60,55%), belonged to open-end NPF (Chart 10). Remaining market share was almost equally divided between corporate and professional funds.

Table 12

NPF assets under AMCs management as of 31.12.2007, by the types of NPF

NPF type	Number	Assets, UAH	Share
Open-end	58	146 986 406.85	60.55%
Corporate	6	49 187 081.42	20.26%
Professional	5	46 594 469.21	19.19%
Total	69	242 767 957.48	100.00%

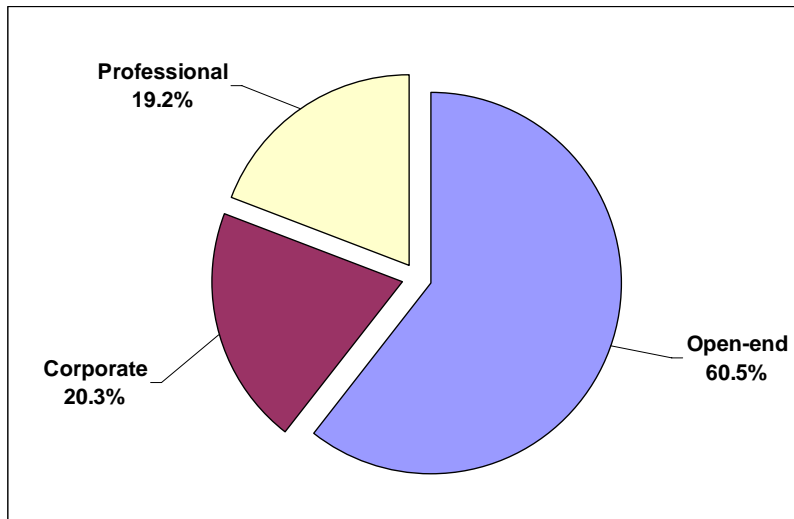


Chart 10. Share of assets of different NPF types within the aggregate value of NPF assets under AMC management, as of 31.12.200

Just as last year, the most significant share of NPF assets was made of securities (49,2%), cash and bank deposits (43,1%) (Chart 11). However, compared to 2006, the share of securities went down by 13,1%, and of moneys – grew by 10,1%.

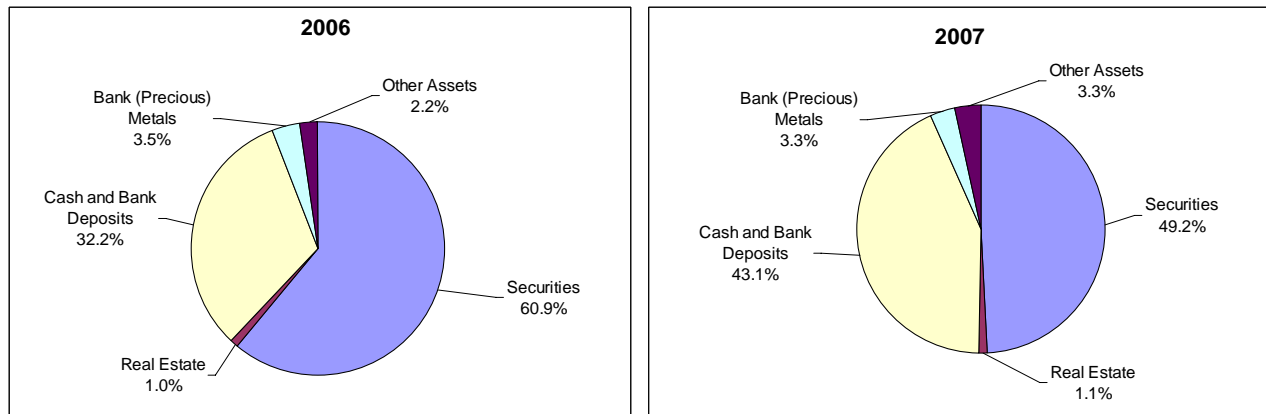


Chart 11. NPF assets structure in 2006 - 2007

12. Resume

2007 became one of the most successful years for collective investment institutions, in the first turn, due to a rapid growth of the national stock market. Considerable growth was observed in the number of asset management companies, investments funds, and, somewhat less significant, in the number of non-state pension funds in AMC management. The value of assets in AMC management more than doubled and at year end comprised approximately 6% of the Ukrainian GDP.

Taking into account the dynamics of the collective investments market development, we could forecast that in the nearest future it will compete with the banking sector in attracting available funds of citizens and business entities, and will give an impetus to the national economy development.

The main obstacle on the way of collective investment institutions' development is a lack of experience in the regulation of their operations in the emerging market. Such regulation will be efficient provided a close cooperation of the legislative and the regulatory authorities with CII market entities represented by their self-regulatory organizations is ensured.