

# Analytical Review of the Collective Investment Market in the First Quarter 2008

## Table of contents

1. Ukrainian Stock Market.....	1
2. AMC and CII Number .....	1
3. Regional Distribution of AMC and CII .....	2
4. Non-venture CII Asset Value.....	3
5. Non-venture CII Asset Structure .....	5
6. Non-venture CII Rate of Return .....	7
7. Non-venture CII Certificates' Ownership Structure .....	8
8. Resume.....	9

## **1. Ukrainian Stock Market**

The first quarter 2008 was affected by one of the most severe global financial crises that started from a mass default on mortgage loans in the USA late in 2007 and spread to all global markets. Huge losses of financial institutions, along with extremely negative US macroeconomic indicators, caused a liquidity crisis and an outflow of moneys from stock markets. As a result, nearly all major indices fell (Table 1).

Ukrainian market had not avoided those negative trends and in the first quarter remained affected by the mass outflow of foreign moneys, due to which the offer was considerably exceeding the demand. Global negative factors were enhanced by such internal problems as high inflation rate, unstable economic situation, growing prices on energy carriers etc. As a result, during the first quarter 2008, PFTS index dropped by 18,29% and at quarter end comprised 959,31 points.

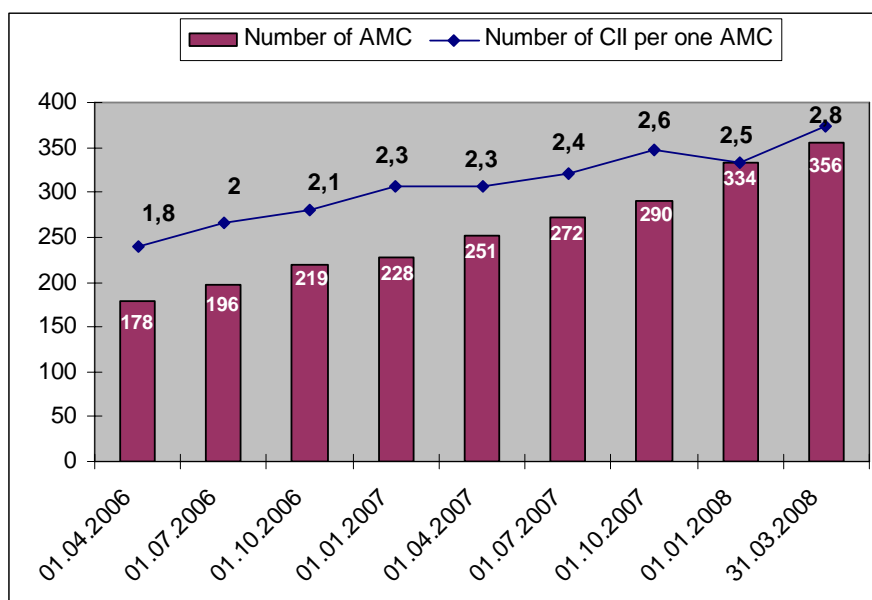
***Table 1. National markets' stock indices in the first quarter 2008***

Index	01.01.2008	31.03.2008	Quarterly rate of return
PFTS (Ukraine)	1174,02	959,31	-18,29%
RTS (Russia)	3169,23	3017,94	-4,77%
HANG SENG (China)	27812,65	22849,19	-17,85%
WSE WIG (Poland)	55702,46	48011,28	-13,81%
DAX (Germany)	8067,32	6534,97	-18,99%
S&P 500 (USA)	1449,89	1322,7	-8,77%
FTSE 100 (Great Britain)	6456,9	5702,1	-11,69%
NIKKEI 225 (Japan)	15307,78	12525,54	-18,18%

Such situation in the stock market, which is the main place of investments of venture, as well as non-venture funds, conditioned a certain decline in the collective investment market both in terms of the volumes of moneys in AMC management and the rates of return of CII in their management.

## **2. AMC and CII Number**

In the first quarter 2008, 22 new asset management companies emerged, and as of 31.03.2008 there were 356 AMCs (Chart 1). An average number of CII per one AMC increased up to 2,8 funds, which is due to a certain time gap between a considerable increase of AMCs in the IVth quarter 2007 and an appearance of the funds established by these new AMCs.



**Chart 1. AMC and CII number dynamics per on AMC since 01.04.2006 through 31.03.2008**

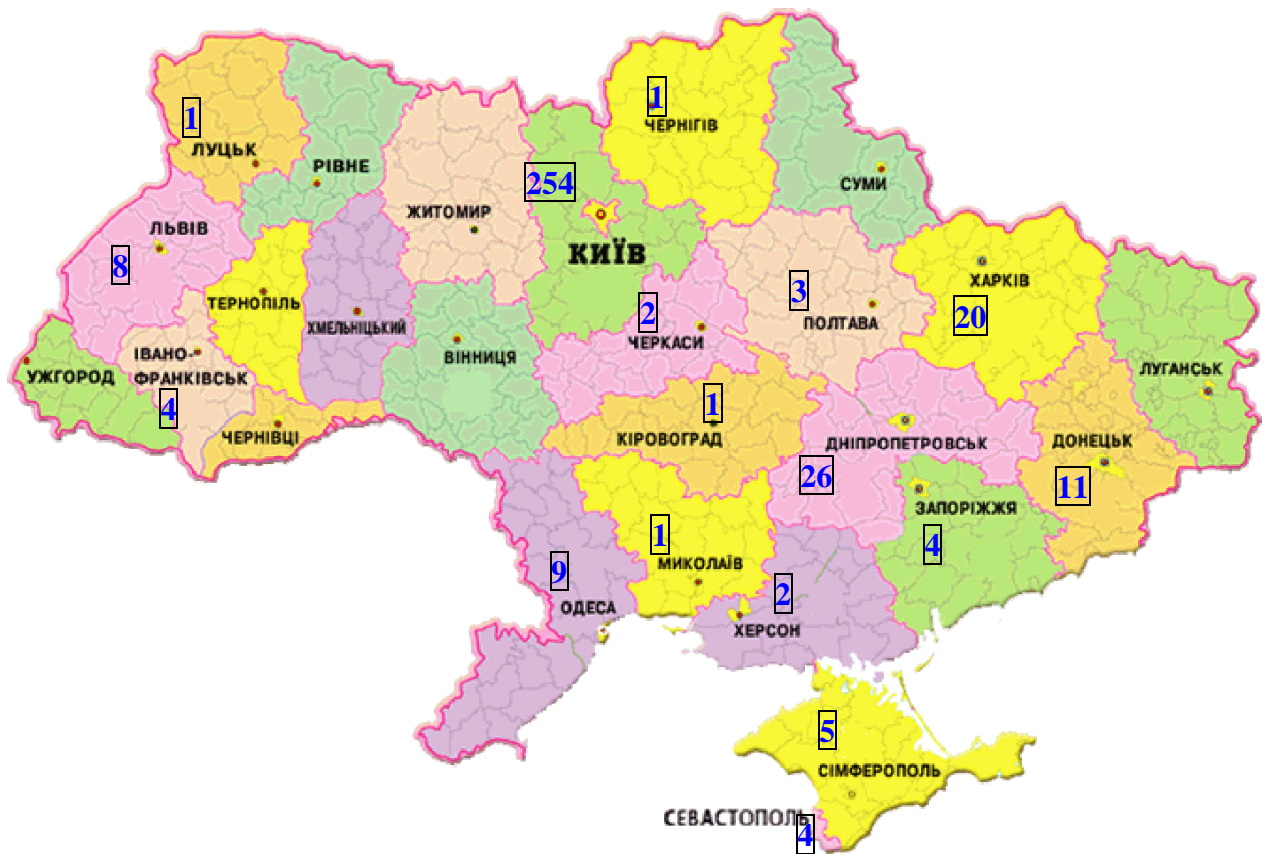
According to the data of the Single State Registry of Collective Investment Institutions, the number of CII during the first quarter 2008 grew by 20% from 834 to 1003 funds (Table 2). Unlike during the previous quarter, that growth occurred primarily due to venture CII, the number of which increased by 119 funds.

**Table 2. CII number dynamics by the types of CII since 01.10.2007 through 31.03.2008**

Period	Total	SIF					CIF	
		Open-end	Interval	Close-end diversified	Close-end non-diversified	Venture	Close-end non-diversified	Venture
01.10.2007	745	18	35	3	28	553	70	38
01.01.2008	834	27	35	4	30	603	88	47
31.03.2008	1003	29	48	7	39	722	108	50
Growth-IVth quarter 2007	12%	50%	0%	33%	7%	9%	26%	24%
Growth – Ist quarter 2008	20%	7%	37%	75%	30%	20%	23%	6%

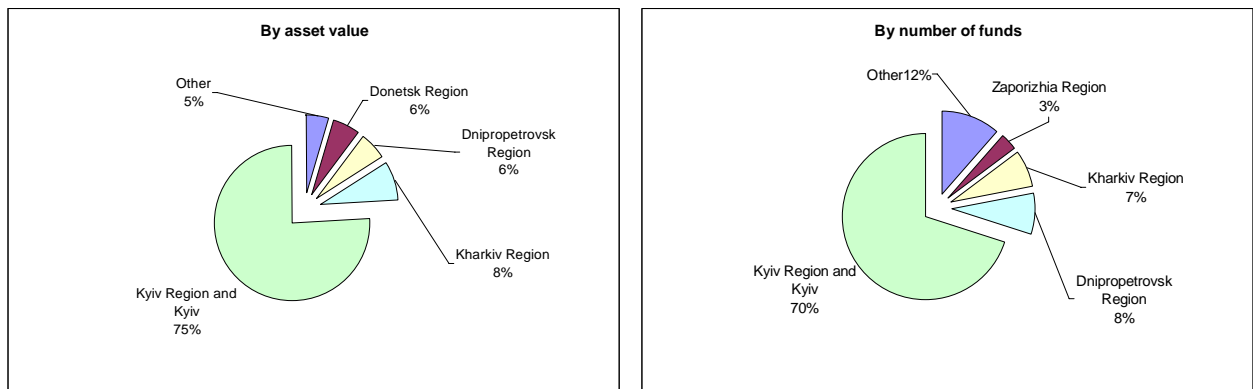
### **3. Regional Distribution of AMC and CII**

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 70% of CII (Chart 3) are located, whose assets comprise 75% of the total asset volume (Chart 4).



**Chart 2. Regional distribution of AMC as of 31.03.2008**

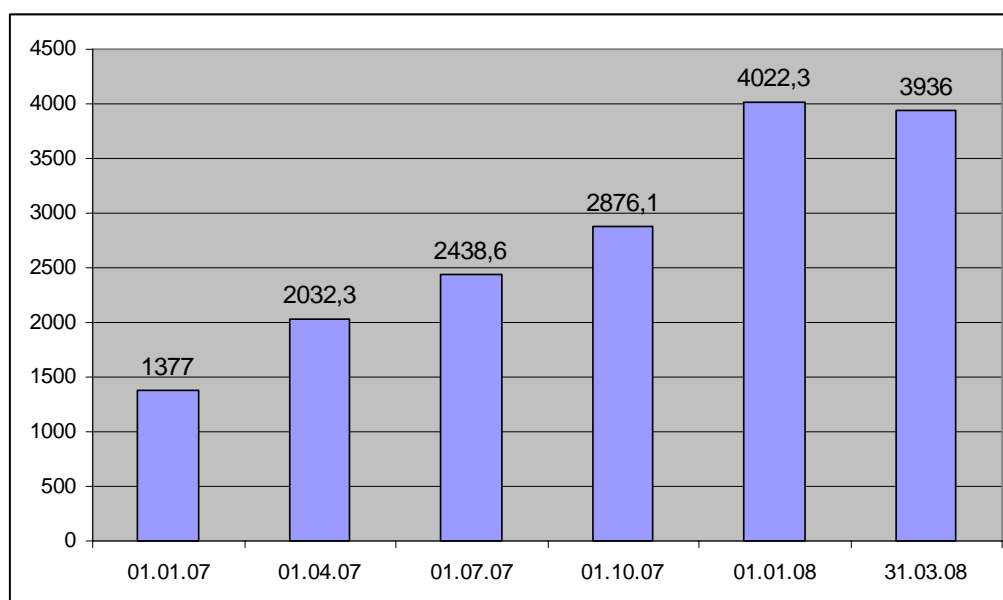
Second place by the registered CII asset value is held by Kharkiv Region (7% of CII and 8% of assets), and by CII number – Dnipropetrovsk Region (8% of CII and 6% of assets).



**Chart 3. Regional distribution of CII by the number and value of assets managed as of 31.03.2008**

#### **4. Non-venture CII Asset Value**

For the first time during the history of the Ukrainian CII market, an aggregate value of non-venture funds' assets managed by AMC decreased. If at the beginning of the quarter it comprised UAH 4022 M, at the end of the quarter already – UAH 3936 M. (-2,15%) (Chart 4).



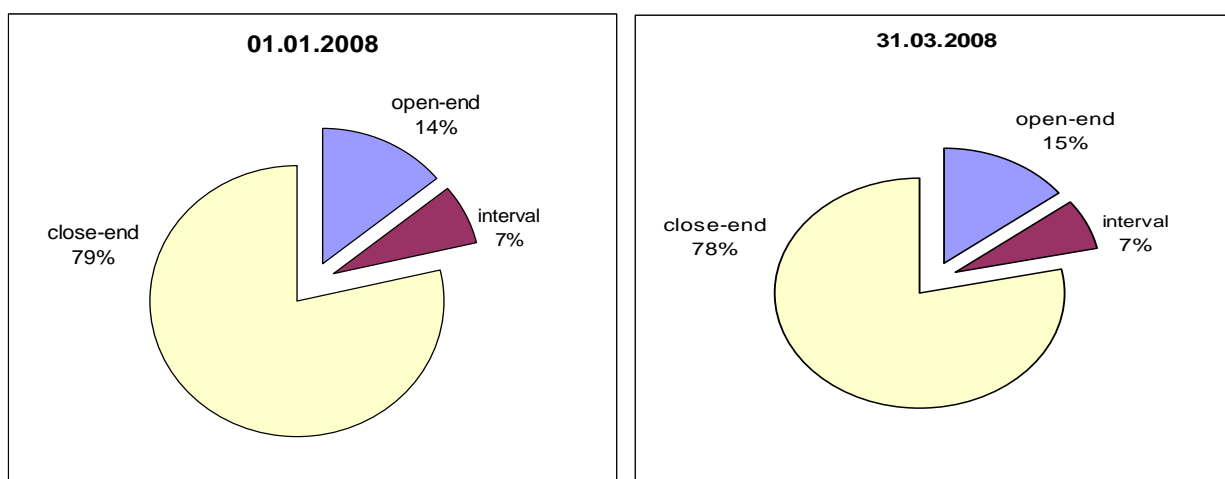
**Chart 4. CII asset value dynamics in 2007-2008, UAH M**

Among the different fund types, the greatest decline was experienced by interval CII, an aggregate asset value of which decreased by 4,32% and at quarter end comprised UAH 281,4M. (Table 3). Only open funds managed to retain their position: their asset value grew by UAH 7,8M (+1,38%). However, that indicator is also record-breaking low.

**Table 3. Non-venture CII asset value dynamics since 01.10.2007 through 31.03.2008, by the types of funds**

Funds	AV as of 01.10.2007, UAH M	AV as of 01.01.2008, UAH M	AV as of 31.03.2008, UAH M	Growth for 4 <sup>th</sup> quarter 2007	Growth for 1 <sup>st</sup> quarter 2008
Open-end	267,9	564,8	572,6	110,82%	1,38%
Interval	158,5	294,1	281,4	85,55%	-4,32%
Close-end (non-venture)	2449,7	3163,4	3082	29,13%	-2,57%
Total	2876,1	4022,3	3936	39,85%	-2,15%

As decrease of CII assets by the types of funds was going comparatively evenly, the proportion of different types of funds remained almost unchanged (Chart 5).



**Chart 5. CII asset value structure, by the types of funds in 2008**

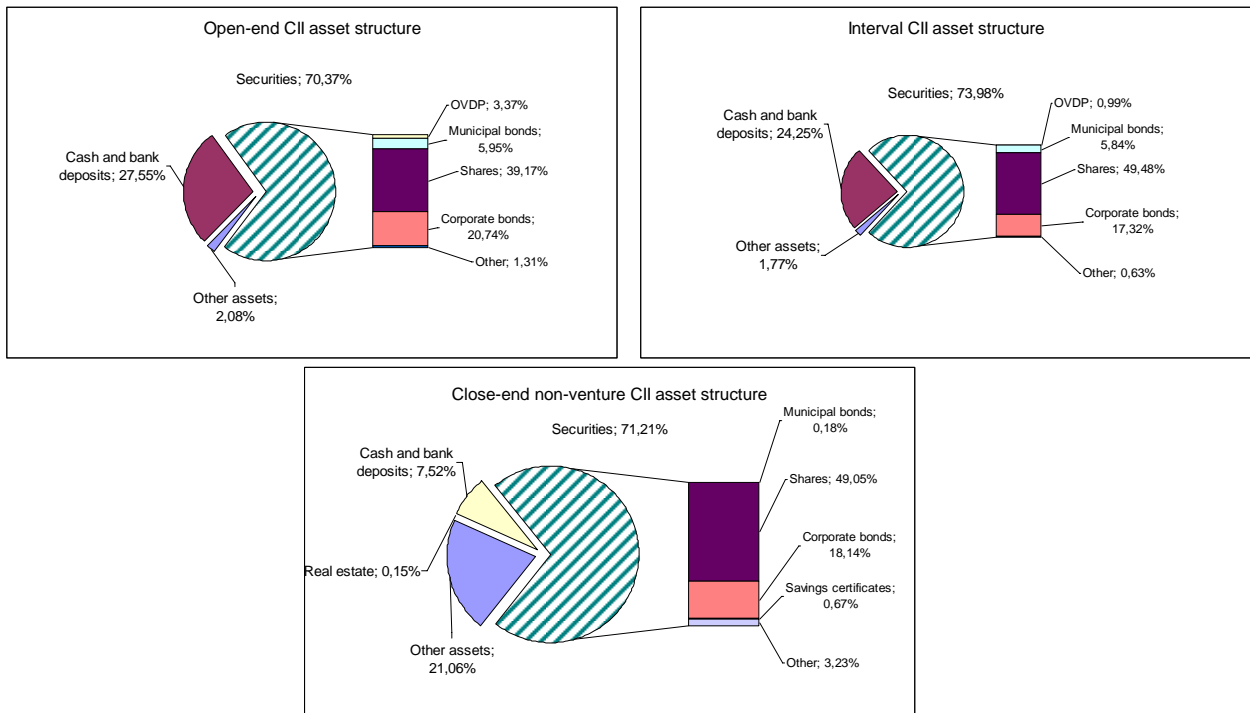
The net asset value of non-venture funds also somewhat decreased: from UAH 3620,1M at the start of the first quarter 2008 to UAH 3595,8M (-0.67%) at quarter end (Table 4).

**Table 4. Non-venture CII net asset value dynamics since 01.10.2007 through 31.03.2008, by the types of funds**

Funds	NAV as of 01.10.2007, UAH M	NAV as of 01.01.2008, UAH M	NAV as of 31.03.2008, UAH M	Growth for 4 <sup>th</sup> quarter 2007	Growth for 1 <sup>st</sup> quarter 2008
Open-end	266,76	555,4	568,7	108,20%	2,39%
Interval	132,21	283,4	277,3	114,36%	-2,15%
Close-end	2097,54	2781,3	2749,8	32,60%	-1,13%
Total	2496,51	3620,1	3595,8	45,01%	-0,67%

### **5. Non-venture CII Asset Structure**

It is expedient to analyze CII asset structure by the types of funds, as specific restrictions are established for the liquidity of each of them. As it can be seen from Chart 6, asset structure of open-end and interval CII is fairly similar, though open-end CII have somewhat greater share of liquid assets. In particular, they comprise 27,55% of moneys and bank deposits and 3,37% of the bonds of internal state loan (OVDP), whilst interval CII – 24,25% and 0,99%, respectively.



**Chart 6. CII asset structure in different types of funds as of 31.03.2008**

Close-end non-venture CII attract moneys for long-term periods and have considerably lower requirements to the liquidity of their assets. As of 31.03.2008, only 6,72% of their assets consisted of cash and bank deposits.

Compared to the beginning of the quarter, the stake of shares somewhat increased within the structure of open-end and interval CII (+1,24% and +3,02%), though in close-end funds it decreased (-1,84%). The stake of cash changed accordingly: decreased in open-end and interval funds (-1,87% and -1,7%) and increased in close-end funds (+0,8%). Therefore, although in the conditions of stock market fall and liquidity crisis all CII attempt to get rid of shares and work with moneys, only close-

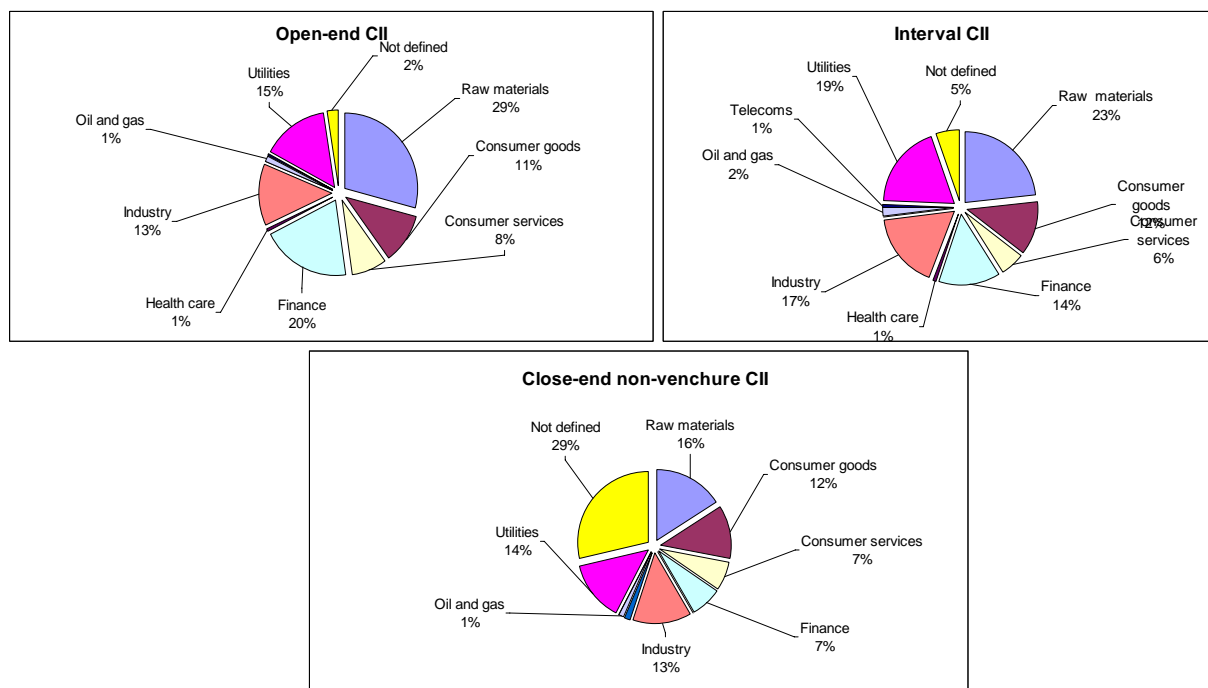
end funds, which do not have the obligation of buying their certificates back from the investors before the fund closes, really succeed in doing so.

Let us consider the structure of the combined CII securities portfolio by the types of funds (Table 5 and Chart 7). The transparency and liquidity of the portfolio may be assessed based on stake of securities, the industry belonging of which is not defined (yellow segments of the diagram - Chart 7). Just as it has been expected, the combined portfolio of open-end CII comes first by this criterion (2,44%), of interval CII – second (5,23%), and close-end CII – third (28,57%). We will note that compared to the quarter beginning, all these indicators have decreased, which demonstrates the managers' attempts to make their funds more liquid.

**Table 5. CII securities portfolio structure – by the industries of investments and types of funds as of 31.03.2008<sup>1</sup>**

Industry	Open-end	Interval	Close-end
Raw materials	29,29	23,22	15,76
Consumer goods	10,74	12,20	12,27
Consumer services	7,87	5,63	6,62
Finance	19,54	13,98	6,97
Health care	0,58	0,69	0,14
Industry	13,41	17,37	13,20
Mixed	0,06	0,04	1,38
Oil and gas	1,07	1,81	1,06
Telecoms	0,24	0,65	0,13
Utilities	14,78	19,19	13,90
Not defined	2,44	5,23	28,57
Total	100,00	100,00	100,00

By share within the combined securities portfolio of non-venture CII, most popular are the securities of enterprises working in such sectors as raw materials, finance, utilities (energy supply) and industry (according to PFTS classification).



**Chart 7. Combined CII securities portfolio structure, by investment industries and fund types, as of 31.03.2008**

<sup>1</sup> According to PFTS industry classification.

Blue chips of the Ukrainian stock market and PFTS index components remain the most popular companies judging by their presence in different CIIs' portfolios (Table 6). Just as at the start of the quarter, most popular are the shares of *Azovstal Metallurgical Works (AZST)*, which are held in the portfolios of 76 funds. The shares of *Mariupol Heavy Engineering Works (MZVM)* can be mentioned for their increasing attractiveness. Over the first quarter 2008 the number of CII holding those securities in their portfolios went up from 43 to 64 funds.

**Table 6. Most popular securities – by presence in CII portfolios as of 31.03.2008**

No.	Security type	Category	Issuer	Number of CII that have respective securities in their portfolios
1	Shares	Common registered	<i>Azovstal Metallurgical Works</i>	76
2	Shares	Common registered	<i>Mariupol Heavy Engineering Works</i>	64
3	Shares	Common registered	<i>Motor Sich</i>	60
4	Shares	Common registered	<i>Zakhidenergo</i>	59
5	Shares	Common registered	<i>State Energy Company Tsentrenergo</i>	58
6	Shares	Common registered	<i>Yenakyivsky Metallurgical Works</i>	52
7	Shares	Common registered	<i>Ukrnafia</i>	51
8	Shares	Common registered	<i>Nyzhniodniprovisky Pipe-Rolling Plant</i>	46
9	Shares	Common registered	<i>JSCB Ukrspotsbank</i>	44
10	Shares	Common registered	<i>Lutsky Automobile Works</i>	44

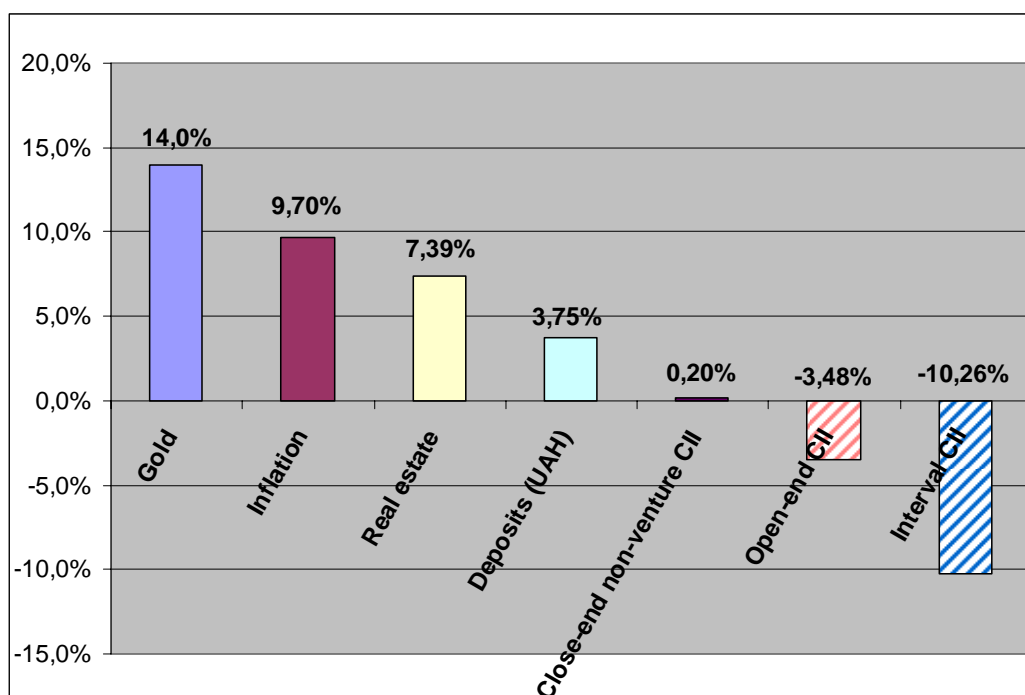
Most popular securities by the aggregate value within CII portfolios as of 31.03.2008 were the bonds of companies *Vyrobnychy Viector* (UAH 86,2M) and *Yug-Steklo* (UAH 60M) (Table 7). Among shares, these are the securities of *Mariupol Heavy Engineering Works* that lead (UAH 55,6M). The shares of *Azovstal Metallurgical Works*, which hold first place by presence in the portfolios of different CII, are the eighth in terms of volumes (UAH 44,6M).

**Table 7. Most popular securities –by aggregate value in CII portfolios as of 31.03.2008**

No	Security type	Category	Issuer	Value of securities purchased by CII, UAH
1	Corporate bonds	Non-interest bearing, registered	<i>Vyrobnychy Viector</i>	86 176 383,70
2	Corporate bonds	Interest bearing, registered	<i>Yug-Steklo</i>	60 000 000,00
3	Shares	Common registered	<i>Mariupol Heavy Engineering Works</i>	55 588 942,84
4	Shares	Common registered	<i>Zaporiziaoblenergo</i>	50 029 291,20
5	Shares	Common registered	<i>Leninska Kuznia Plant</i>	49 230 364,64
6	Shares	Common registered	<i>Komsomolets Donbasou Mine</i>	46 281 965,56
7	Corporate bonds	Interest bearing, registered	<i>Ukrainian Automobile Holding</i>	45 089 151,10
8	Shares	Common registered	<i>Azovstal Metallurgical Works</i>	44 590 133,38
9	Shares	Common registered	<i>Ahrobud-1</i>	42 426 805,99
10	Shares	Common registered	<i>Zakhidenergo</i>	40 174 055,33

## **6. Non-venture CII Rate of Return**

Stock market fall in the first quarter 2008 conditioned the low rate of return generated by CII. Only close-end funds managed to demonstrate positive results (+0,2%) (Chart 8). However, the nature of that indicator is indicative, as the range of the rates of return of individual funds of that type is rather broad.



**Chart 8. Average rate of return of different types of CII, gold, and deposits in the first quarter 2008<sup>2</sup>**

The rate of return of open-end CII in the first quarter comprised -3,48%, and of interval CII – -10,26%. Such results could be explained by the presence among open-end CII of conservative “money market” and “bonds” funds which demonstrated a comparatively low fall, while prevailing majority of interval funds used more aggressive strategies.

On the background of stock market fall, growing inflation (9,7%), weakening dollar and growing oil prices, the investments into bank metals and real estate came first by rate of return. For instance, the price of gold in the first quarter 2008 grew by 14%, and of real estate – by 7,39%.

## **7. Non-venture CII NAV Distribution by the Ownership**

As of 31.03.2008, major investors of non-venture CII were legal entities-residents (50,09% of the aggregate NAV), which directed their investments primarily to close-end CII (61,39% of the close-end funds’ NAV). The second place belonged to natural persons-residents, whose investments amounted to 36,82% of the aggregate NAV of non-venture CII). The greatest share of such investments could be found in interval funds. The third place was held by legal entities-non-residents (12,58% of the aggregate NAV of non-venture CII), which invested primarily into open-end CII (42,52% of such funds’ NAV).

**Table 9. Non-venture CII NAV Distribution by the Ownership as of 31.03.2008, % of NAV**

Funds	Legal entities-residents	Legal entities non-residents	Natural persons - residents	Natural persons non-residents
Open-end	8,75%	42,52%	48,28%	0,46%
Interval	23,05%	5,18%	71,67%	0,10%
Close-end	61,39%	7,15%	30,89%	0,57%
Total	50,09%	12,58%	36,82%	0,52%

<sup>2</sup> 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/>).

The key changes of non-venture CII asset structure in the first quarter were due to an outflow of investments of legal entities-non-residents from open-end funds (-10 per cent). On the one hand, that could be explained by the cautious attitude of foreign investors towards Ukrainian CII in the conditions of stock market decline, and on the other – by the liquidity crisis in the global financial markets.

## **8. Resume**

The first quarter 2008 witnessed a record-breaking stock market fall in terms of volumes and duration. Though it is too early to talk about its consequences for the CII market, certain interim conclusions can be drawn even now.

Non-venture funds' net asset value remained almost unchanged over the first quarter, which, on the one hand, is a sign of investors' being informed and having high risk appetite, and on the other – of a considerable potential preserved by the CII market and of positive expectations regarding the national securities market.

The financial crisis made more acute CII market problems, which were to a certain extent concealed by intensive market growth. Among them, in particular: absence of a single methodology for CII asset valuation; inefficiency of the stock market in exercising the price formation function and maintaining liquidity of Ukrainian issuers' securities; lack of agreement on the fair competition rules among the market participants etc.

Efficient solving of the above-listed problems today depends on the position of CII market participants and regulators, as well as on bringing up the role of self-regulatory organizations in initiating constructive dialogue among them.