

# Analytical Review of the Collective Investments Market In The 2nd quarter 2008

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## **1. The Ukrainian Stock Market**

Expectations as to the development of the financial crisis started in the USA in the end of 2007 became the key factor of influence on the financial markets around the world. Markets were actively responding to the FRS statements, publications of macroeconomic indices and corporate news, demonstrating high volatility. When the stock markets were falling and inflation was progressing, a great number of institutional investors were transferring their funds from the capital markets to the commodity markets, in particular, by buying oil and oil futures. That resulted in raw materials' price boost and, accordingly, further drop of major indexes.

The Ukrainian market did not become an exception – an outflow of capital from it continued. If during the first quarter the Ukrainian stock market more or less followed the fluctuations of mature markets, during the second it was falling most of the time. That could be explained by the fact that during the first quarter investors presumed that the crisis would not be long and were looking for opportunities to buy securities at good prices, whilst in the 2nd quarter pessimistic moods based on the length of the existing trend were prevailing.

As a result, during the 2nd quarter 2008, PFTS index fell by 20% and at quarter end reached 767,57 points, which was one of the poorest results among the major indexes.

***Table 1. National markets' stock indexes in the first half year 2008***

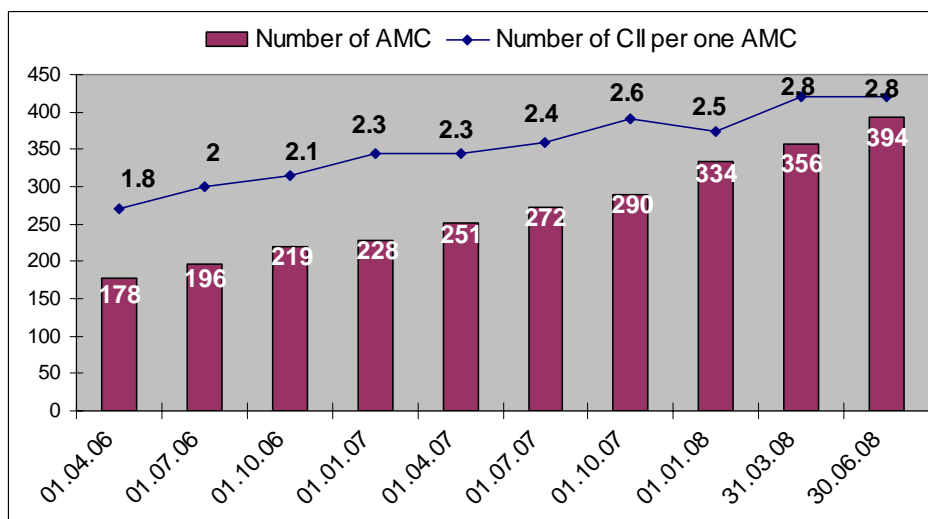
Index	01.01.2008	31.03.2008	30.06.2008	Change over 2d quarter 2008	Change YTD
PFTS (Ukraine)	1174,02	959,31	767,57	-19,99%	-34,62%
RTS (Russia)	3169,23	3017,94	3380,39	12,01%	6,66%
HANG SENG (China)	27812,65	22849,19	22102,01	-3,27%	-20,53%
WSE WIG (Poland)	55702,46	48011,28	41146,26	-14,30%	-26,13%
DAX (Germany)	8067,32	6534,97	6362,11	-2,65%	-21,14%
S&P 500 (USA)	1449,89	1322,7	1319,64	-0,23%	-8,98%
FTSE 100 (Great Britain)	6456,9	5702,1	5577,4	-2,19%	-13,62%
NIKKEI 225 (Japan)	15307,78	12525,54	13481,38	7,63%	-11,93%

Such situation in the stock market, which is the main object of investments of non-venture CII funds, conditioned a further decline in the collective investments market both by the volumes of funds under AMC management and the profitability of CII under their management.

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

In the 2nd quarter 2008, 38 new asset management companies emerged (in the first quarter – 22), and as of 30.06.2008 their number reached 394 (Chart 1). An average number of CIIs per one AMC remained unchanged – 2,8 funds.

Based on the data of Table 2 we could assume that new AMCs were mainly establishing venture and close-end non-venture funds. We will point out that provided they raise considerable volumes of funds, in the conditions of an outflow of capital from the stock market, domestic issuers' securities' value drop and liquidity crisis present, their operations may generate excess profits.



**Chart 1. AMC and CII number dynamics per on AMC since 01.04.2006 through 30.06.2008**

According to the data of the Unified State Registry of Collective Investment Institutions, the number of CIIs during the 2nd quarter 2008, unlike the number of AMCs, slowed down growth rate: +8% during the quarter and +30% during the half year (Table 2). As it has been pointed out earlier, an increase of the total number of CIIs during the 2nd quarter by 83 funds - up to 1086 funds - occurred mainly owing to venture (+56) and close-end non-venture funds (+16).

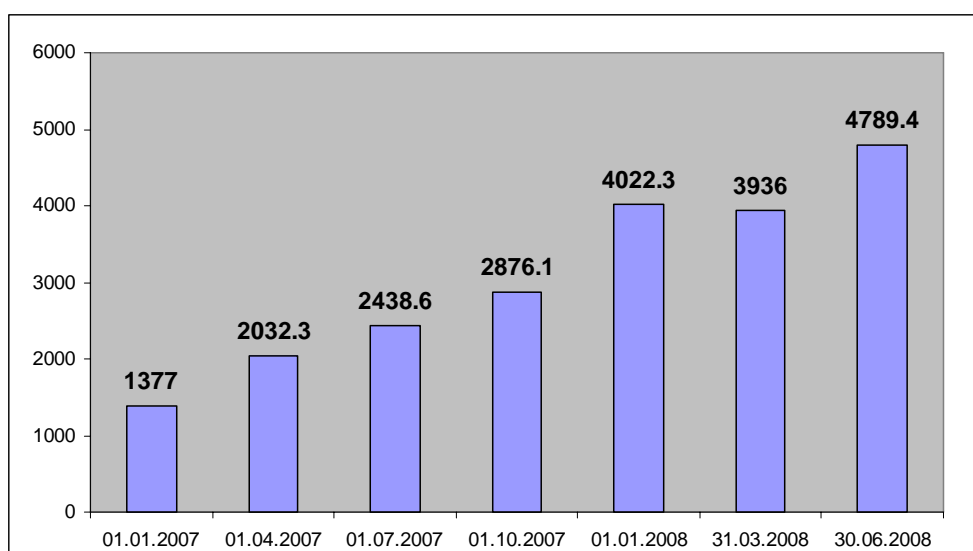
**Table 2. CII number dynamics by the types of CII in the first half-year 2008**

Date	Total	UIF (SIF)					CIF	
		Open-ended	Interval	Close-end diversified	Close-end non-diversified	Venture	Close-end non-diversified	Venture
01.01.2008	834	27	35	4	30	603	88	47
31.03.2008	1003	29	48	7	39	722	108	50
30.06.2008	1086	33	55	9	36	778	124	51
Growth over 2nd quarter	8%	14%	15%	29%	-8%	8%	15%	2%
Growth YTD	30%	22%	57%	125%	20%	29%	41%	9%



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

Despite stock market decline, the value of non-venture funds' assets under AMC management went up by 20,85% - up to UAH 4789,4 M – over the 2nd quarter (Chart 4).



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

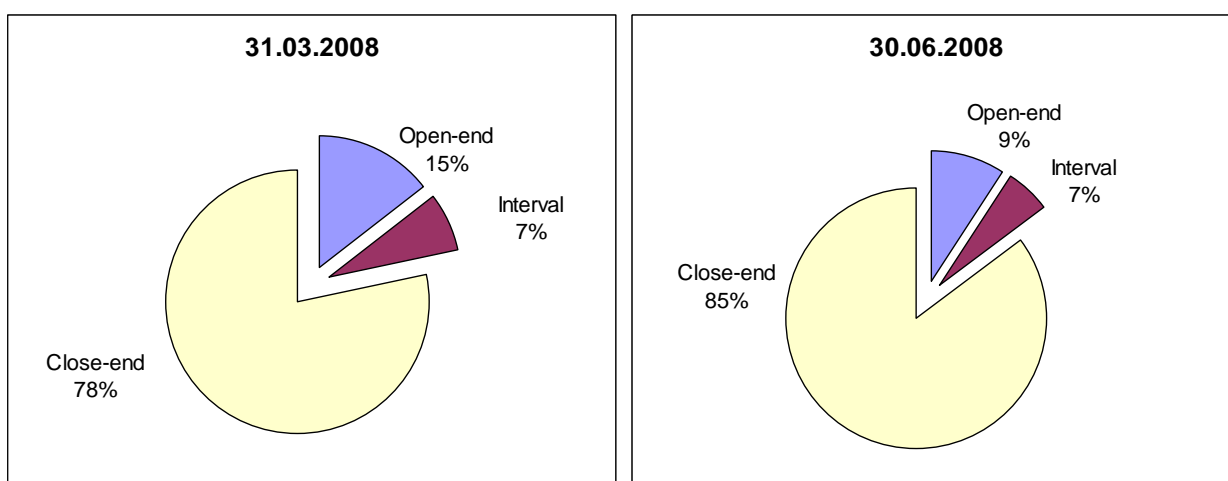
Such an increase occurred primarily due to close-end funds, whose asset value went up by 32,48% (+ UAH 1 bln.) and comprised UAH 4083M. In view of the data presented above that could be explained by new funds' reaching compliance with the standards.

Open-end CIIs continued incurring losses. The total value of assets under their management during the 2nd quarter decreased by 22,67% and at quarter end amounted to UAH 442,8M. (Table 3). Compared to them, interval funds' assets were decreasing at considerably slower pace (-6,33%).

**Table 3. Non-venture CII asset value dynamics in the first half year 2008, by the types of funds**

Types of Funds	AuM as of 01.01.2008, UAH M	AuM as of 31.03.2008, UAH M	AuM as of 30.06.2008, UAH M	Change over 2nd quarter 2008	Change YTD
Open-ended	564,8	572,6	442,8	-22,67%	-21,60%
Interval	294,1	281,4	263,6	-6,33%	-10,37%
Close-end (non-venture)	3163,4	3082	4083	32,48%	29,07%
Total	4022,3	3936	4789,4	21,68%	19,07%

As a result of uneven changes by the types of funds, their proportion by the value of assets under management changed. Open-end funds' share decreased from 15 to 9 interest points, and the close-end funds' one increased from 78% to 85% (Chart 5).



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

Non-venture funds' *net asset* value also increased– from UAH 3595,8M at the start of the 2nd quarter to UAH 4160,3M (15,7%) at quarter end (Table 4). An increase of funds' liabilities to assets ratio should be noted – from 9,5% at quarter start to 15,12% at quarter end. That could be explained by attempts to move costs to future periods in the conditions of liquidity crisis.

**Table 4. Non-venture CII asset value dynamics in the first half of 2008, by the types of funds**

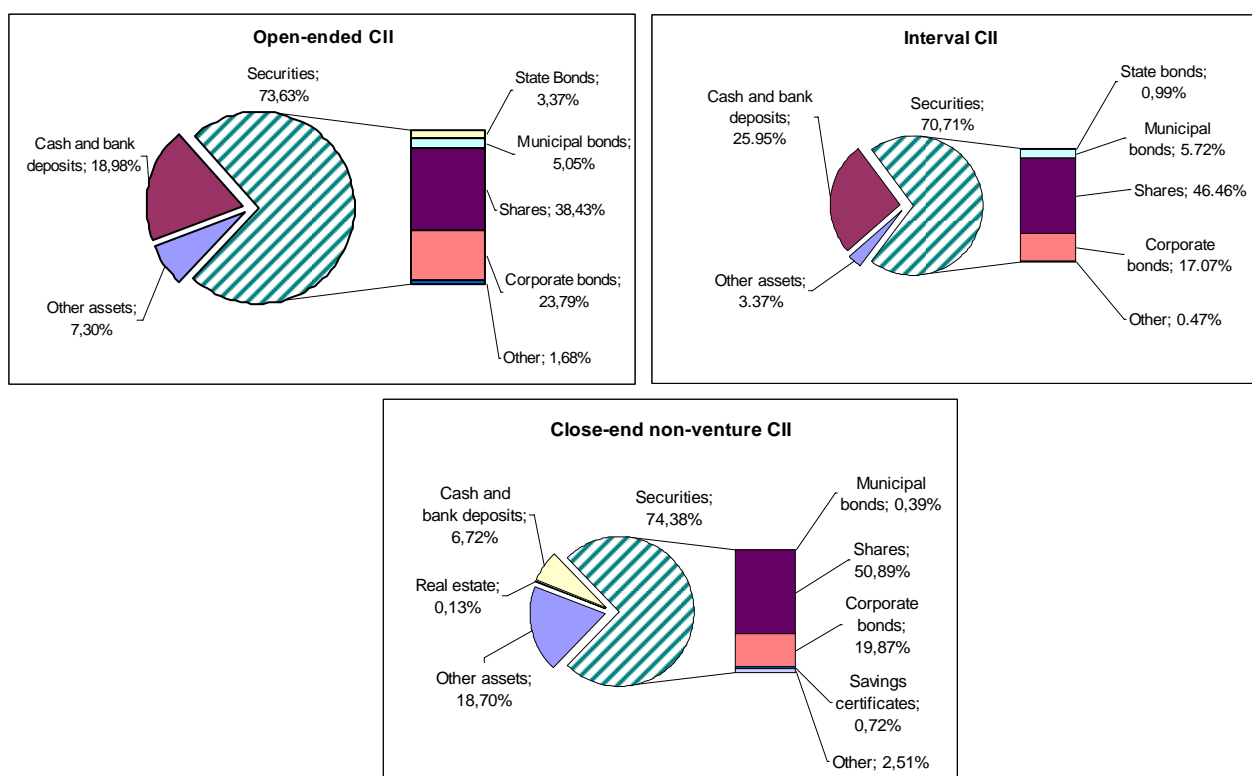
Funds	NAV as of 01.01.2008, UAH M	NAV as of 31.03.2008, UAH M	NAV as of 30.06.2008, UAH M	Change over 2nd quarter 2008	Change YTD
Open-ended	555,4	568,7	427,8	-24,78%	-22,97%
Interval	283,4	277,3	260,9	-5,91%	-7,94%
Close-end (non-venture)	2781,3	2749,8	3471,6	26,25%	24,82%
Total	3620,1	3595,8	4160,3	15,70%	14,92%

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

Just as earlier, open-end and interval funds have more liquid asset structure compared to the one of close-end funds. If the stake of moneys and bank deposits in the portfolios of the former comprise 18,98% and 24,7% accordingly, in case of close-end CII – only 9,09%.

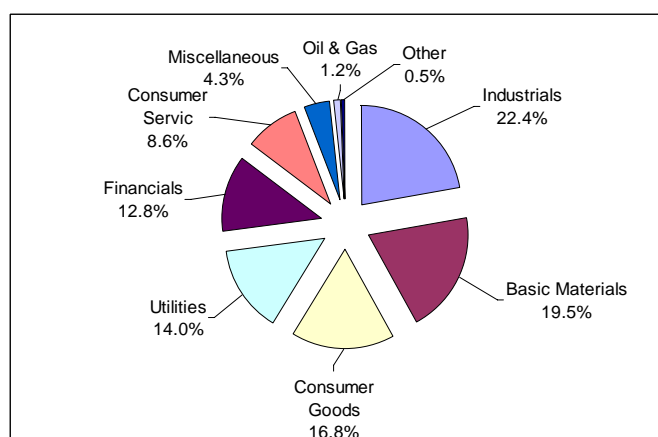
Compared to the structure of non-venture CII assets at quarter start <sup>1</sup>, the key changes over the 2nd quarter 2008 became a decrease of the stake of moneys and bank deposits in open-end funds by 8,57% - up to 18,98%, and an increase of the stake of “other assets” of close-end funds by 8,73% - to 29,79% - accompanied by a decrease of the securities' stake from 71,21% to 60,94%. If the former could be explained by a mass outflow of moneys from open-end funds, the latter could most likely be due to the contribution of new funds that have considerable volumes of corporate rights within their assets.

<sup>1</sup> See: «Analytical Review of the Collective Investments Market in the First Quarter 2008», [http://www.uaib.com.ua/files/articles/418/31\\_4.pdf](http://www.uaib.com.ua/files/articles/418/31_4.pdf)



**Chart 6. CII asset structure of different types of funds as of 30.06.2008**

Let us consider the structure of the consolidated CII securities portfolio by investment industries (Chart 7). As it can be seen from Chart 7, the key sectors into which non-venture funds invest, according to PFTS classification, are industry (22%) and raw materials (20%). We will note that these sectors are also the national export leaders. It could be assumed that as trade relations of Ukraine within the WTO develop, these sectors will be getting even more attractive.



**Chart 7. Consolidated CII securities portfolio structure, by industries of investment, as of 30.06.2008<sup>2</sup>.**

The transparency and liquidity of the portfolio could be evaluated based on the stake of securities, the industry belonging of which is not defined (Table 5). Just as during the preceding periods, it is the consolidated open-end CII portfolio that leads by that criterion (2,39%), the second place belongs to the interval CII (9,02%), and the third one - to close-end CII (32,79%). We will note that compared to the quarter beginning, all these indicators have grown<sup>3</sup>.

<sup>2</sup> According to PFTS industry classification.

<sup>3</sup> See: «Analytical Review of the Collective Investments Market in the First Quarter 2008», [http://www.uaib.com.ua/files/articles/418/31\\_4.pdf](http://www.uaib.com.ua/files/articles/418/31_4.pdf)

**Table 5. CII securities portfolio structure – by the industries of investments and types of funds as of 30.06.2008**

Industry Category	Open-ended	Interval	Close-end
Industrials	13,93%	17,38%	16,29%
Basic materials	28,81%	19,32%	11,68%
Consumer goods	11,71%	11,84%	12,18%
Utilities	13,76%	16,49%	9,11%
Financials	20,29%	15,97%	7,21%
Consumer services	7,00%	6,51%	6,09%
Miscellaneous	0,07%	0,05%	3,70%
Oil & gas	1,14%	2,24%	0,70%
Health care	0,59%	0,53%	0,13%
Telecoms	0,31%	0,65%	0,12%
Not defined	2,39%	9,02%	32,79%
Total	100,00%	100,00%	100,00%

The Ukrainian stock market blue chips, the first ten of which, with exception of *Lutsky Automobile Works* (LUAZ), are PFTS index components, have remained most popular by their presence in the portfolios of non-venture CIIs (Table 6). Just as at the quarter beginning, the leader is *Azovstal Metallurgical Works* (AZST), whose shares are included into portfolios of 82 funds (76 at the quarter beginning).

Compared to the quarter beginning<sup>4</sup>, the tendency towards increasing presence of nearly all shares of the top ten popularity leaders has been observed in CII portfolio, which generally demonstrates AMC's attempts to improve their portfolios' liquidity by way of moving towards more liquid shares.

**Table 6. Most popular securities – by presence within non-venture CII portfolios as of 30.06.2008**

No.	Security type	Category	Issuer	Number of CII that have respective securities in their portfolios
1	Shares	Common registered	<i>Azovstal Metallurgical Works</i>	82
2	Shares	Common registered	State Energy Generating Company <i>Tsentrenergo</i>	78
3	Shares	Common registered	<i>Mariupol Heavy Engineering Works</i>	74
4	Shares	Common registered	<i>MOTOR SICH</i>	73
5	Shares	Common registered	<i>Yenakyivsky Metallurgical Works</i>	72
6	Shares	Common registered	<i>Zakhidenergo</i>	66
7	Shares	Common registered	<i>Ukrnafta</i>	63
8	Shares	Common registered	<i>Lutsky Automobile Works</i>	56
9	Shares	Common registered	<i>Poltavsky GOK (Ore-Enrichment Works)</i>	56
10	Shares	Common registered	<i>Donbasenergo</i>	54

<sup>4</sup> See: «Analytical Review of the Collective Investments Market in the First Quarter 2008», [http://www.uaib.com.ua/files/articles/418/31\\_4.pdf](http://www.uaib.com.ua/files/articles/418/31_4.pdf)

Just as at quarter beginning, the leaders by an aggregate value within CII portfolios as of 30.06.2008 are the assets not listed in Table 6. In other words, the greatest volumes of securities within CII assets are the securities purchased in large blocks by a small number (for instance, one) CII. We should note that usually such assets' liquidity is low. For instance, the previous quarter leaders – the bonds of *Vyrobnychy Viector* Company and *Yug-Stieкло* Company did not change value within CII portfolios – UAH 86,2M and UAH 60M respectively, which means that no trading in those shares has taken place.

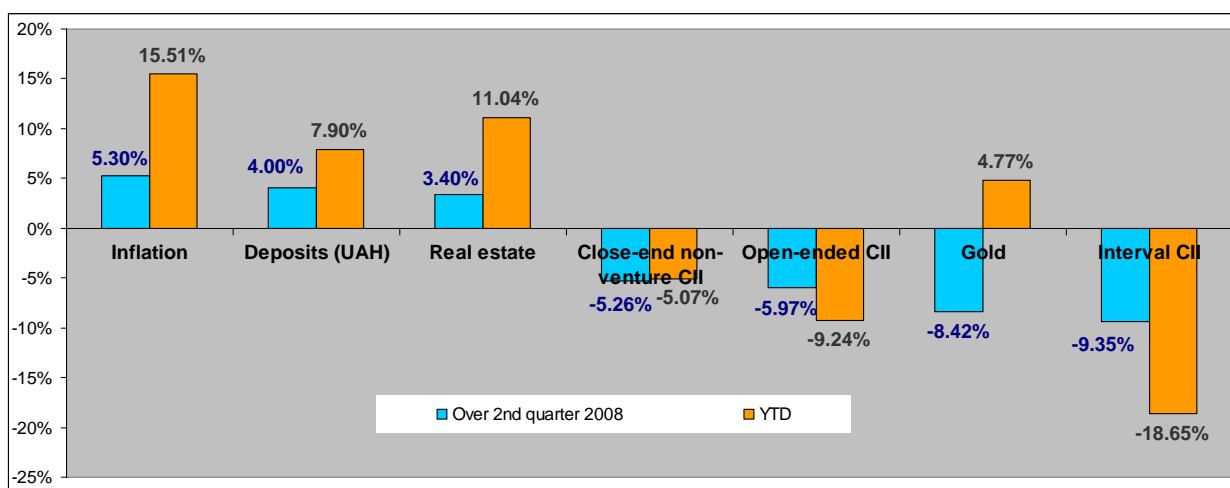
Due to market price drop, an aggregate value of most liquid shares in CII portfolios shrank considerably, despite an increase in the number of CII that own them. Out of the first quarter top ten only the shares of *Azovstal Metallurgical Works* (AZST) kept leadership positions in the 2nd quarter. The number of CII that held those securities increased from 76 to 82 funds during the quarter. At that, an aggregate value of *Azovstal* shares within CII portfolios fell from UAH 47,44M to UAH 44,59M.

**Table 7. Most popular securities – by aggregate value in CII portfolios as of 30.06.2008**

No.	Security type	Category	Issuer	Value of securities purchased by CII, UAH
1	Corporate bonds	Non-interest bearing, registered	<i>Vyrobnychy Viector</i>	86 187 906,70
2	Shares	Common registered	<i>"Leninska Kuznia" Plant</i>	78 594 395,09
3	Shares	Common registered	<i>Darnytsky ZBK Works</i>	74 158 633,60
4	Corporate bonds	Interest bearing, registered	<i>Yug-Stieкло</i>	60 000 000,00
5	Shares	Common registered	OJSC "Beer&non-alcohol complex "Radomyshl"	58 899 970,04
6	Shares	Common registered	<i>Azovstal Metallurgical Works</i>	47 444 788,01
7	Corporate bonds	Interest bearing, registered	<i>Ukrainian Automobile Holding</i>	44 544 115,00
8	Shares	Common registered	<i>Ahrobud-1</i>	42 426 805,99
9	Shares	Common registered	<i>Ukravtoresurs</i>	41 404 049,00
10	Shares	Common registered	<i>Stakhanovsky Wagon Works</i>	41 170 234,43

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

The stock market decline continuing during the 2nd quarter 2008 caused even greater, compared to the first quarter, losses of CII rate of return (Chart 8). All types of non-venture funds posted considerable losses both in the results of the 2nd quarter and the first half year.



**Chart 8. Average rate of return of different types of CIIs, gold, and deposits in 2008<sup>5</sup>**

Interval funds continue demonstrating the poorest results (-9,35% per quarter and -18,65% per annum). Such results are primarily due to the operations of «old» interval funds – successors of the privatization funds whose portfolios were formed at certification auctions and cannot boast high quality. Close-end funds faced smallest losses (-5,26% per quarter and -5,07% per first half year). However, an indicative nature of this characteristic should be pointed out, as the rates of return of individual funds belonging to this type have a fairly broad range.

In the first half 2008, investments into real estate were most profitable (+11,04%), however, as a result of the liquidity crisis in the national banking system – an important source of moneys inflow into the construction industry – the rate of return on real estate considerably decreased in the 2nd quarter (+3,4%).

On the background of dollar stabilization and cessation of the oil market growth, gold also lost its positions (-8,42% per 2nd quarter).

## **7. Non-venture CII Certificates Distribution**

As of 30.06.2008, the key investors of non-venture CIIs were legal entities-residents (59,66% of the total NAV (50,09% – at quarter beginning), which directed their investments primarily into close-end CII (68,36% of close-end funds' NAV). Natural persons-residents, whose investments comprised 30,12% of the total NAV value of non-venture CIIs, came second (36,82% – at quarter beginning). Most of such investments (71,43%) were made to interval funds. Legal entities – non-residents (9,74% of the total NAV of non-venture CII (12,58% – at quarter beginning), which invested primarily into open-end CII (46,78% of these funds' NAV), came third.

Therefore, in the 2nd quarter the following major tendencies as to the change of the structure of non-venture CII investors can be identified. The share of legal entities-residents went up by 9%, mainly owing to close-end funds, which could possibly be explained by reaching compliance with the standards by sixteen new close-end funds (see Table 2) with considerable volumes of investments attracted (see Table 3). That, as well as, to a considerably smaller extent, an outflow of investors from open-end funds, led to shrinking of the legal entities-non-residents' (-3 %) and natural persons-residents' (-7 %) respective shares.

<sup>5</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/>)

**Table 9. Non-venture CII certificates distribution by the ownership  
as of 30.06.2008, % of NAV**

<b>Funds</b>	<b>Legal entities- residents</b>	<b>Legal entities non-residents</b>	<b>Natural persons - residents</b>	<b>Natural persons non-residents</b>
Open-ended	7,11%	46,78%	45,81%	0,30%
Interval	23,37%	5,10%	71,43%	0,10%
Close-end	68,96%	5,53%	24,97%	0,53%
Total	59,66%	9,74%	30,12%	0,48%

## **8. Resume**

The 2nd quarter 2008 demonstrated that the Ukrainian stock market was getting more and more integrated into the global capital markets and highlighted its essential dependence on the foreign capital. Continuing global financial crisis without any indications of its close end enhanced pessimistic moods of the Ukrainian market players, which conditioned a further decline of the Ukrainian market.

In spite of the above, the net asset value of non-venture funds grew over the first quarter, primarily owing to the capital of legal entities-non-residents in new close-end funds.

Therefore, the stock market decline on the one hand resulted in current losses for investors, which prompted them to close their securities positions, and, on the other – provided an opportunity to raise money by buying those securities at new, reduced prices, which major players attempted to take an advantage of.