

## Contents

1. Stock Markets: Ukraine and the World .....	1
2. CII Market Performance.....	3
2.1. Number of AMC, CII and the Regional Distribution.....	4
2.2. Assets and Net Assets of CII .....	7
2.3. Net Flow of Capital in Open-Ended CII .....	10
2.4. Investors of CII .....	12
2.5. Asset Structure of CII .....	13
3. NPF Asset Management Market Performance .....	18
4. Insurance Companies' Asset Management Performance .....	21
5. Problematic Aspects of the Asset Management in 2016 .....	21
6. Resume and Next Year Prospects.....	24

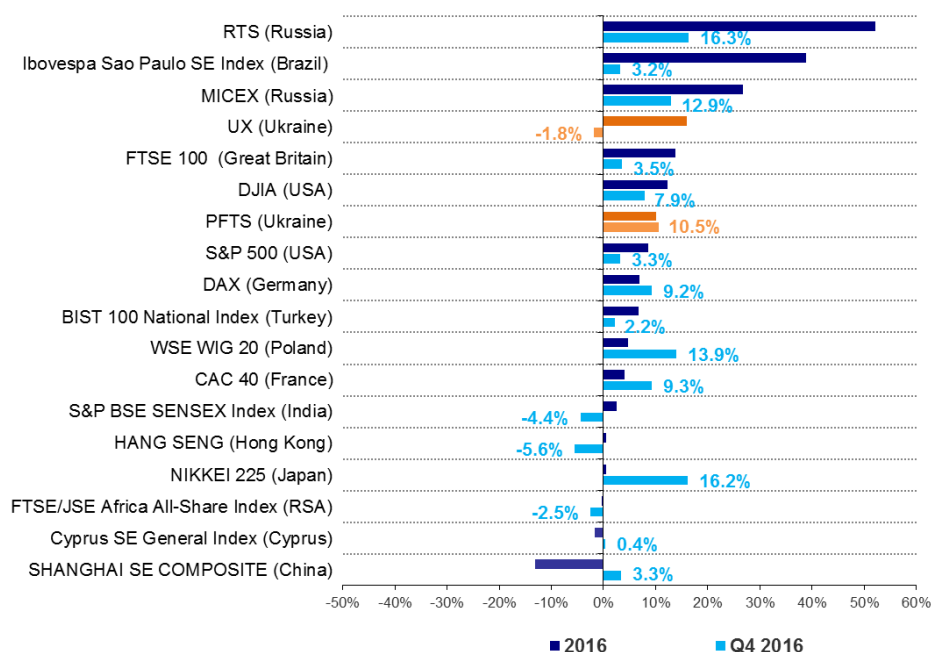
## 1. Stock Markets: Ukraine and the World

In 2016 the developed **world stock markets** mostly rose. It was the dynamics of the 4th quarter that allowed some of them to achieve positive annual results (Chart 1).

USA indexes moved with upward trend almost the whole year, except for a brief fall after referendum in the UK (Brexit) at the end of June, which was quickly corrected. Then, during the year, the market was awaiting for the elections of president in the USA, and active growth recovered only after them - investors of majority of large traditional businesses in the country waited for the beneficial effect of the declared by the new president steps

concerning changes in economic policy. Regular iterations of raising the Fed's rates were considered by many market's participants as insufficient to stimulate real economic growth, but moderation of monetary regulation met the expectations of investors.

Europe was shocked by Great Britain's decision to withdraw from the EU, that brought down the value of the pound of sterling, but pushed up the key index of country's equities. Volatility during the year was warmed up, among all, by the tension about the Greek state debt, which persisted, as well as by the banking crisis that was brewing in Italy.



*Chart 1. National markets' stock indexes' dynamics in Q4 2016 and 2016\**

\*Based on the data of exchanges and Bloomberg Agency. Ranking is based on annual indicator, values are given for Q4 2016

Negative rates, the trend towards emergence of which deepened in 2016, more and more disturbed central banks and investors around the world, although the first ones continued and reinforced the policy of financial incentives, including through redemption of problematic assets and injections of liquidity. Armed conflicts and geopolitical confrontations in the Middle East and in Ukraine were also disturbing factors, although they had a more limited impact.

For Asian markets the year was especially difficult. China suffered significant losses in the 1-st quarter in conditions of low economic development, growing inflation and increasing debt, and also because of unjustified hopes for liberalization of monetary policy of PBOC, that reinforced outflows of capital. After failure at the beginning of the year, Chinese market could not recover until the year-end, although in the 4-th quarter it rose amid some positive steps concerning restructuring of economy, liberalization of capital's movements and access of foreign investors to China's assets.

Rise of the Japanese indices at the end of the year, which compensated losses in the first and second quarters, was even more expressive. Brazil, which was coming out from the political crisis, was also among world's leaders of growth in the stock markets in 2016.

Russian indices were leaders in the fourth quarter and in 2016 due to rising prices of energy, which recovered after last year's fall by one third - almost to the level of the end of 2014. Some progress in the stabilization of the Russian economy also contributed to growth, which allowed to make placement of Eurobonds for the first time since introduction of international sanctions against Russia for its actions against Ukraine.

**Ukrainian stock market**, after losing a third of its capitalization a year before, received a fairly significant

increase in 2016 due to a number of positive internal factors and despite a sharp narrowing of the market as a result of changes in the regulatory field.

Ukrainian market, like emerging markets, fell sharply in Q1 2016; this was provoked not only by external geopolitical turbulence, but also by unfavorable internal innovations. They were, in particular, much more stringent conditions for listing securities, which came into force at the beginning of 2016, that at last led to reduction of UX index basket by three components out of 10, and by another two - till the end of the year. This also happened against the backdrop of an aggravation of the domestic political situation, which restrained the continuation of the IMF's financial support program for Ukraine.

Fall of the UX index by 20% (mainly in the third decade of March) was replaced by almost 50%- rise during the second and third quarters - due to recovery of economic growth after deep recession as a result of war in the east: GDP growth in the second quarter already amounted to +1.5% per annum, and in the 4th quarter strengthened to +4.8% (+2.3% for the whole year). The long-awaited allocation of the third tranche by the IMF under the EFF program of extended financing, although in a reduced amount (USD 1 bln.), also contributed to recovery. In the 4th quarter, the leading Ukrainian equities were adjusted (-1.8% by UX index, after +20.1% in the 3rd), and **rose by 16.0% in 2016**.

Along with changes in regulation, reduction of the number of securities in the listing of exchanges accelerated sharply in 2016; a rapid decrease of the volume of trading in them continued also (Table 1).

*Table 1. Dynamics of Ukrainian stock exchange market in Q4 2016 and 2016*

Indicator / Date	31.12.2015 (2015)	30.09.2016 (Q3 2016)	31.12.2016 (Q4 2016)	31.12.2016 (2016)	Q4 2016 Change	2016 Change (YoY)
<b>Number of Securities (CB) in the listing of stock exchanges (SEs), including:</b>	<b>2247</b>	<b>1800</b>	<b>1631</b>	<b>1631</b>	<b>-9.4%</b>	<b>-27.4%</b>
<b>Number of securities in the SEs registers (tiers 1 and 2 of the SEs' listing), including:</b>	<b>562</b>	<b>314</b>	<b>313</b>	<b>313</b>	<b>-0.3%</b>	<b>-44.3%</b>
State bonds (OVDP)	265	279	274	274	-1.8%	3.4%
equities*	31	9	7	7	-22.2%	-77.4%
corporate bonds	91	25	26	26	4.0%	-71.4%
municipal bonds	0	1	0	0	-100.0%	x
NBU deposit certificates	141	0	0	0	x	-100.0%
<b>Trading volume on the SEs per year (total), UAH mln, including:</b>	<b>290 771.0</b>	<b>59 167.8</b>	<b>68 232.6</b>	<b>236 953.3</b>	<b>15.3%</b>	<b>-18.5%</b>
State bonds (OVDP)	253 319.7	54 681.8	63 717.1	211 257.2	16.5%	-16.6%
equities	5 810.9	593.6	651.9	2 180.0	9.8%	-62.5%
corporate bonds	13 604.1	3 274.7	3 032.2	9 433.7	-7.4%	-30.7%
municipal bonds	19.8	0.0	0.0	0.0	x	-100.0%
NBU deposit certificates	8 714.5	0.0	0.0	11 376.8	x	30.5%
investment certificates	2 170.2	26.4	21.5	395.3	-18.5%	-81.8%
derivatives (state derivatives derivatives excluded)	6 516.5	396.7	188.9	1 190.4	-52.4%	-81.7%
option certificates	615.3	150.9	556.9	1 028.7	269.1%	67.2%

Sources: NSSMC, stock exchanges; UAIB calculations.

*Lists of securities in all stock exchanges of Ukraine* as a whole decreased in 2016 by 27%, listing (the 1st and 2nd levels) - by 44% (for 2015-16 - by 57%). The number of listed equities fell by 77% for the year, and of corporate bonds - by 71% (for two years - by 94% and 88%, respectively). Deposit certificates of NBU completely disappeared from the listing (in 2015 there were 141 of them), and municipal securities of one issuer rapidly appeared, as well as rapidly left the listing and lists of exchanges.

Only OVDP became more (+3.4%), while *the volume of trading* in these instruments in 2016 decreased again (-16.6%), although in the fourth quarter it increased (+16.5%). Despite growth in the 4th quarter (+9.8%), the

total value of transactions *with equities* for the year fell – by more than 2.5 times (-62.5%). *Trades in corporate bonds* declined by almost a third (-30.7%), and the total trading volume - by 18.5% (after -53.8% in 2015).

Based on results of the year, only trades in derivative instruments increased, in particular, in optional certificates - +269.1% for the quarter and +67.2% for the year.

## **2. CII Market Performance**

### ***European context***

In 2016 European industry of investment funds set new records - **net assets** of all funds at year-end reached **EUR 14,142 bln.** (+6.1% for the year, after +10.8% in 2015) and **net inflows to AIF<sup>1</sup> funds** amounted to **EUR 184 bln.**, that helped to increase their **net assets to EUR 5,483 bln.** (+7.0, after +24.2% in 2015). This year assets of European investment funds exceeded 95% of EU GDP.

**Total net capital inflows to industry of funds in the EU in 2016 amounted to EUR 459 bln.** (after EUR 725 bln. and EUR 634 bln. in 2014-15)<sup>2</sup>.

**Net assets of UCITS<sup>3</sup> funds** increased during the year **by 5.5%** (after +14.2% in 2015), **to EUR 8,658 bln.** Though the influx to these funds was lower than in 2014-15 (EUR 590 bln. and EUR 472 bln.), but it outperformed indicators of 2007-2013 and amounted to **Eur 275 bln.** in 2016.

Reduction of additional investments in UCITS funds, primarily due to assets of equity and mixed funds, took place because of weakening of investors' confidence and greater uncertainty about development of the EU, and, consequently, to increased volatility in the stock markets. These factors, as well as fall of long-term interest rates in

developed markets, led to increased attractiveness of bond and money market funds, although latter's rates of return were extremely low.

Cross-border's **UCITS** funds, registered in Luxembourg and Ireland, together received 69% of total net capital inflows into UCITS funds in the EU.

*Bond funds* were the most popular among **UCITS** funds in 2016, which additionally attracted for the EUR 112 bln. (in the 4-th quarter – EUR 16 bln., after EUR 63 bln. in the 3rd quarter and EUR 83 bln. in 2015 ). *Money market funds* had approximately the same index - EUR 106 bln. (after EUR 77 bln. in 2015), at that they were the leaders of involvement in the 4th quarter – EUR 36 bln. (after EUR 45 bln.- in Q3 2016).

*Assets of mixed (balanced) funds*, which received the largest inflows in 2015 (+EUR 236 bln.), in 2016 attracted additionally only EUR 49 bln., 15 of which - in the 4-th quarter (after EUR 13 bln. - in Q3 2016).

*Equity funds* were outsiders in 2016 – they had a net outflow of EUR 8 bln. (after net inflow of EUR 134 bln. in 2015). After the stock markets' collapse in January, these funds failed to reach positive indicator of capital flows by the results of 2016, while in the fourth quarter they received net inflows of EUR 13 bln. (after EUR 1 bln. - in Q3 2016).

Net inflows to **AIF** funds in the 4th quarter of 2016 amounted to EUR 39 bln., after EUR 43 bln - in Q3 2016, the lowest indicator for 2016. Annual inflow increased from EUR 148 bln. to EUR 184 bln. Almost half of these funds (48% by NAV and 42% by number) at the end of 2016 were covered by the *"institutional» AIF* (special funds

<sup>1</sup> AIF (Alternative Investment Funds); alternative investment funds; in fact include all other regulated funds, other than UCITS ones. Companies that manage such funds are regulated by AIFMD's Directive.

<sup>2</sup> According to data of 28 countries, associations of which are members of EFAMA (24 EU member states, and also Norway, Switzerland, Liechtenstein and Turkey) - see [EFAMA's Quarterly Statistical Release \(Trends in the European Investment Fund Industry in the Fourth Quarter of 2016 & Results for the Full Year of 2016\)](http://www.efama.org) on website <http://www.efama.org>.

<sup>3</sup> UCITS (Undertakings for Collective Investment in Transferable Securities) - collective (joint) investment institutions in negotiable securities (securities traded on regulated markets); funds are open-ended with public issue and stringent requirements for quality, liquidity and asset structure..

for institutional investors), assets' volume of which reached EUR 2,636 bln. at the end of the year (+10.7% for year ). AIF, which were registered in Germany, attracted the largest part of the additional capital - 53% of the total net inflow to the AIF in the EU.

By asset classes, the following funds retained a significant market share: *mixed funds* (25% by net assets and 29% by number) and *"other" funds* (31% by assets and 34% by number), their NAV in 2016 increased, respectively, by 6.9% and 7.3%.

*"Other" funds* received the largest net inflow among AIF assets by asset classes in 2016 – EUR 94 bln. - (in particular, real estate funds and also funds with broader diversification and a greater focus on investment results). Inflow to *mixed funds* was also significant – EUR 64 bln. *AIF bond and equity funds* attracted per year, respectively, EUR 14 bln. and EUR 10 bln. (after EUR 22 and –EUR 39 bln. in 2015).

## *Ukrainian realities*

### **2.1. Number of AMC, CII and the Regional Distribution**

Developments in Ukrainian institutional investors' asset management industry in 2016 mostly continued and deepened the trends of previous years. Thus, the conditions of activity for professional participants continued to become more and more complex, the number of operating companies and funds that had reached standards, declined, and the amount of assets under management grew almost throughout the whole year, though in the 4-th quarter assets decreased significantly for the first time.

**As at 31.12.2016, there were 295 asset management companies acting in Ukraine.** During the year, the number of AMC declined by 4-5 companies every quarter (Chart 2), that eventually led to an annual reduction by 18 companies -5.8% (in 2015 – by 23, or 6.8%, for the years 2013-16 – by 58, -16.7%). As before, new companies entered the market during the year, but their number was smaller than of those, which were closed. In the 4-th quarter 5 AMC were eliminated.

At the end of 2016 over 96% of all AMC managed at least one venture fund (a year ago - almost 95%, the number decreased from 296 to 294 of these companies).

AMCs' compliance with prudential standards, together with increasing requirements for the licensing conditions of AMC activities contributed to improving the financial stability of companies, their transparency, including with respect to ultimate beneficial owners.

**Number of registered collective investment institutions** in 2016, the first time since 2013, increased - +58 funds (after -2 in 2015 and -35 in 2014), at that in the 4-th quarter - +24, to 1625. Consequently, strengthening of concentration in CII asset management market accelerated: one AMC accounted for an average of 5.5 funds (Chart 2).

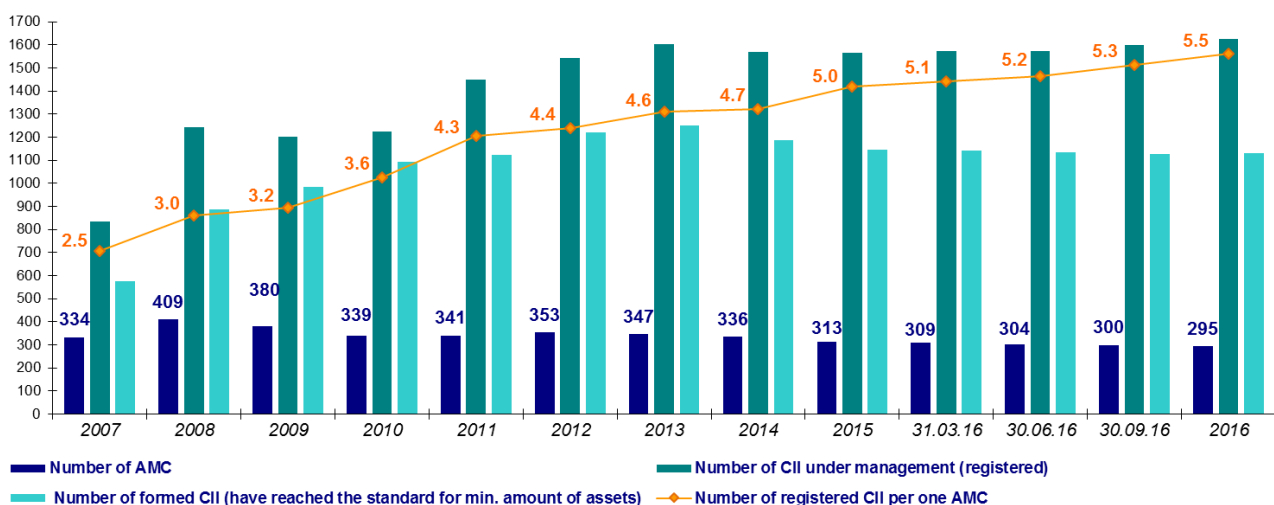


Chart 2. Dynamics of the number of AMC and CII in 2007-2016

In 2016 decreasing of the total number of **CII that reached compliance with minimal asset volume standard** continued to slow down: -1.4% after -3.5% in 2015 (-16 versus -41 funds). At that, the 4th quarter brought a change of the trend - the number of recognized CII increased by 4 funds (+0.4% for the quarter) - from 1127 to 1131 (Table 2). During October-December 27 CII were recognized as valid (all of them- venture funds), for the year - 71 (68 – venture ones), that shew a slight increase compared to 2015 (62 CII).

**Venture funds** led not only by the number of new CII that reached the standards, but also of those that

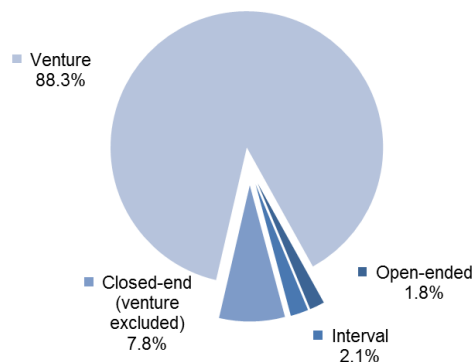
were closed: the total number of recognized venture CII at the end of 2016 grew by only 6 funds - up to **998** (+0.6%, after -1.4% in 2015), at that the number of venture UIF for the year decreased by 38 funds, to 765 (-4.7%, after -5.1% in 2015). Venture CIF became more per year by 44 (+23.3%, after +18.1% in 2015), at that by 14 funds - for the 4th quarter.

During 2016 dynamics of these CIIs' number was multidirectional, and in the 4th quarter sector increased by 8 funds (reduction occurred only in the 1st quarter by 6 funds).

*Table 2. Dynamics of the number of CII that reached compliance with standards, by types and legal forms, in Q4 2016 and 2016*

Date/Period	Total	UIF*								CIF*		
		OD*	OS*	ID*	IS*	CD*	CNN*	CS*	CV*	I*	CNN*	CV*
31.12.2015	1147	21	5	22	2	9	31	1	803	2	63	189
31.03.2016	1141	20	6	22	3	9	32	1	792	1	62	194
30.06.2016	1135	17	6	22	3	6	32	1	785	1	61	202
30.09.2016	1127	15	5	21	3	6	29	1	771	0	58	219
31.12.2016	1131	15	5	21	3	4	29	1	765	0	55	233
Зміна за 4-й квартал 2016 року	4	0	0	0	0	-2	0	0	-6	0	-3	14
	0.4%	0.0%	0.0%	0.0%	0.0%	-33.3%	0.0%	0.0%	-0.8%	-	-5.2%	6.4%
Зміна за 2016 рік	-16	-6	0	-1	1	-5	-2	0	-38	-2	-8	44
	-1.4%	-28.6%	0.0%	-4.5%	50.0%	-55.6%	-6.5%	0.0%	-4.7%	-100.0%	-12.7%	23.3%

\*UIF - Unit Investment Funds, CIF - Corporate Investment Funds; OD – open-ended diversified CII, OS – open-ended specialised CII, ID – interval diversified CII, IS – interval specialised CII, CD – closed-end diversified CII, CNN - closed-end non-diversified non-venture CII, CS - closed-end specialised, CV - closed-end venture CII (non-diversified, with private issue).



*Chart 3. CII that reached compliance with standards, by types of funds, as at 31.12.2016*

Among other sectors of CII there were the following funds, which were significantly reduced in 2016: **open-ended funds** (-6 funds, -28.6%), **closed-end diversified UIF** (-5, -55.6%), **closed-end non-diversified CIF** (-8 -12.7%). In the 4th quarter, among non-venture CII, changes occurred only in the last two of above mentioned sectors: diversified closed-end UIF (CD UIF) became 2 fewer (-33.3%), non-diversified (CN CIF) - less by 3 (-5.2%).

Decrease in the number of interval CIF was relatively the most significant since the start of the year (-2 funds), as it led to a complete "closure" of the sector.

At that creation of a **new specialized interval CII (bond fund)** in the Q1 2016 was remarkable, as it increased the amount of such funds for the year by 50% (total 3 as at 31.12.2016).

In the 4th quarter, *two closed-end qualified funds (UIF)* were registered, which, according to UAIB data, as at December 31, 2016, had not reached the standards yet. Thus, at the end of the year there were totally 12 specialized and qualified CII under AMC management created in accordance with the new Law "On CII", and those ones, which reached the standards - 9 (in 2015 - 10 and 8, respectively).



Table 3. CII with public issue as at 31.12.2016

CII Type	Number		
	31.12.2015	30.09.2016	31.12.2016
<b>Open-ended (total), including:</b>	<b>26</b>	<b>20</b>	<b>19</b>
diversified	21	15	14
specialised	5	5	5
<b>Interval (total), including:</b>	<b>25</b>	<b>23</b>	<b>23</b>
diversified	23	20	20
specialised	2	3	3
<b>Closed-end (total), including:</b>	<b>59</b>	<b>50</b>	<b>50</b>
diversified	3	3	3
non-diversified	55	46	46
specialised	1	1	1
<b>Total</b>	<b>110</b>	<b>93</b>	<b>92</b>

Table 4. Dynamics of the number of diversified CII with public issue by fund classes (accordingly to structure of assets) in Q4 2016 and 2016

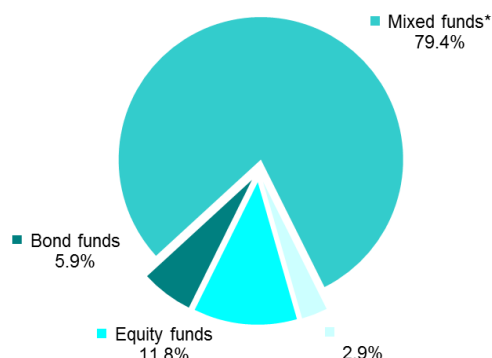
Date/Period	Total	Equity funds	Bond funds	Mixed funds*	Money market funds	Other funds
31.12.2014	46	6	3	27	0	10
31.12.2015	40	11	1	22	0	6
31.03.2016	34	4	4	17	0	9
30.06.2016	33	6	4	13	0	10
30.09.2016	33	4	5	14	0	10
31.12.2016	34	4	2	27	0	1
Q4 2016 Change	1	0	-3	13	0	-9
	3.0%	0.0%	-60.0%	92.9%	-	-90.0%
2016 Change	-6	-7	1	5	0	-5
	-15.0%	-63.6%	100.0%	22.7%	-	-83.3%

\* Funds that have equities, and bonds, and cash in their portfolios.

**CII with public issue** in 2016 kept the downward trend of sector's number of participants (Table 3): there were 92 of such funds at year-end (-15, -12.4% for the year), and number of AMC which managed them was 40 (-10 companies).

Number of **diversified CII with public issue** in the 4-th quarter remained unchanged - 37 funds (-10 per year, after -9 in 2015).

According to the classification based on the assets structure<sup>4</sup>, at the end of 2016 there were 4 *equity funds* (1 open-ended, 2 interval and 1 closed-end diversified CII), ie 7 funds less than at the beginning of the year (Table 4).



\* Funds that have equities, and bonds, and cash in their portfolios.

Chart. 4. Diversified CII with public issue by types of funds as at 31.12.2016

There were *several bond funds* during the year, but as at 31.12.2016 they remained only 2 (1 open-ended and 1 interval funds).

Number of *mixed investment funds (assets)* increased - to 27, although during the year it ranged from 22 at the beginning of January to 13-14 during the 2<sup>nd</sup> and the 3<sup>rd</sup> quarters. At the end of the year, these funds

covered about 80% of the sector of diversified CII with public issue (Chart 4).

The number of *"other funds"*, ie those that did not meet the criteria for classes of equity, bond and mixed investment funds, in the 4-th quarter decreased from 10 to one - most of these funds at year's end found themselves in a class of mixed investment funds. For the year, "other assets" funds became less by 5.

**In the breakdown of AMC by regions of Ukraine** (Chart 5), the share of *Kyiv and its region* in 2016 remained almost unchanged: from almost 71.6% to over 71.5%. This was under conditions of reducing the number of companies in the region from 224 at the beginning of the year to 211 at its end (after -14 in 2015).

*Shares of Dnieper (7.1%), Kharkiv (6.1%) and Odessa (3.1%)* increased, although the number of AMC in these cities and their regions did not change during the year. In *Lviv and its region* number of companies become less by 1, and thus the region's share decreased also (2.7%).

Other regions of Ukraine, outside the Top 5, covered 9.5% of the whole number of companies (in 2015 - 10.2%) - 28 AMC (last year - 32). Number of AMC registered in *Donetsk region* in 2016 reduced from 5 to 4, the same as in *Zaporizhzhia and Poltava regions*. It remained the same also in *Ivano-Frankivsk*. These four regions together covered more than 5% of AMC.

So, the regional concentration of industry in 2016 increased in favor of Kyiv and central regions of Ukraine.

**In breakdown of CII by number of funds weight of capital region** in 2016, in contrast to 2015, fell slightly - from 73.1% to 72.8%. It continued to decrease also **by CII assets under management** - from 82.6% to 80.8%, but remained at a level above year 2013 (78.0%).

*Dnipro and Kharkiv* also retained their second and third positions here: 7.7% and 5.8% by number of funds and 7.9% and about 4.0% by CII assets under management.

<sup>4</sup> see Ренкінг «ІСІ (диверсифіковані публічні) - за класами фондів» and Методику ренкінгування КУА та ІСІ за результатами їхньої діяльності on UAIB website: <http://www.uaib.com.ua>.

Among other regions-leaders, major changes in breakdown of CII by number of assets in 2016 took place in Lviv (increase in share to 3.6% by funds and nearly 2.0%

by assets) and *Donetsk* regions (reduction to 0.9% and 0.7%, respectively (Chart 6).



Chart. 5. Regional distribution of AMC number as at 31.12.2016



Chart 6. Regional distribution of CII by the number of CII and value of their assets under management, as at 31.12.2016

## 2.2. Assets and Net Assets of CII

**The aggregate total assets of CII, that were under AMC management and reached standards**, as at 31.12.2016 amounted to **UAH 230.19 bln.** (Chart 7). In 2016 they **reduced for the first time - by 2.5%** (after rising by 14.4% in 2015), at that in the 4th quarter decrease was significantly faster - by 9.2% - during the first three quarters assets of industry grew.

**The CII assets to Ukraine's GDP Ratio in 2016** decreased for the second year in a row - from 11.9% to 9.7% - against growth of GDP: both nominal (+20.5%) as

well as real one (+2.3%). The reduction of CII assets intensified the fall of the weight to one-digit level (Chart 8).

**The CII's to banks' assets ratio** decreased in conditions of growth of latters – from 19.4% to 18.5%. Thus, ratio came back virtually to the level of 2010, but stayed higher than in 2007 (6.8%).

<sup>5</sup> According to the updated data regarding the assets of banks as at december 31, 2015. Sources.: Sources: State Statistical Service of Ukraine <http://ukrstat.gov.ua>, National Bank of Ukraine: [https://bank.gov.ua/control/uk/publish/article?art\\_id=34661442](https://bank.gov.ua/control/uk/publish/article?art_id=34661442); Data and calculations on CII - UAIB.

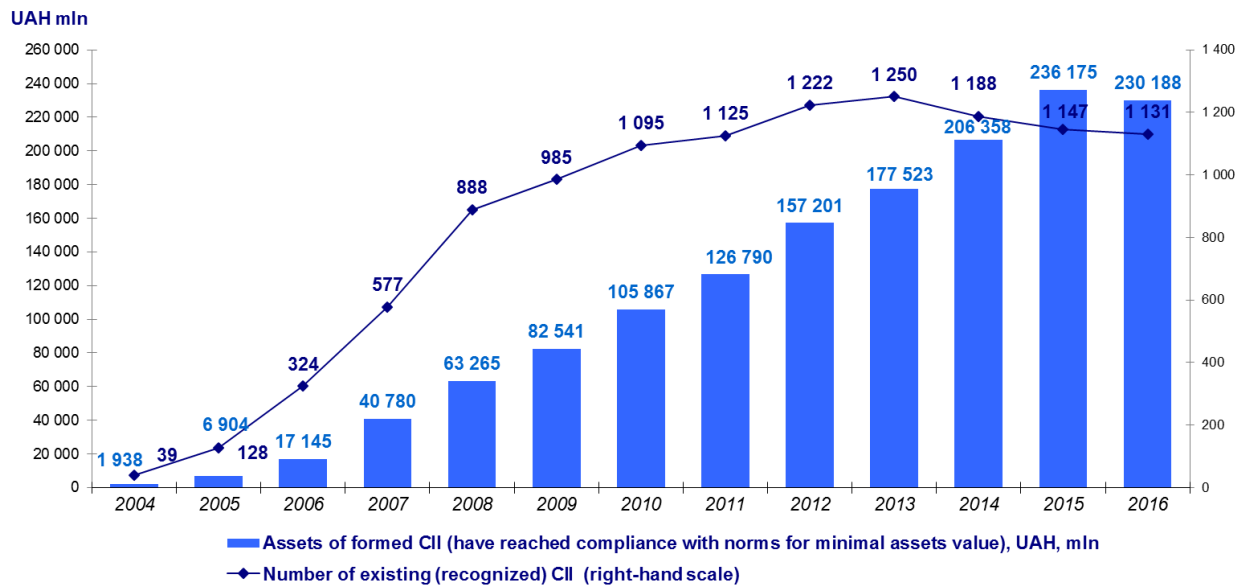


Chart 7. Dynamics of CII asset management market in 2004-2016

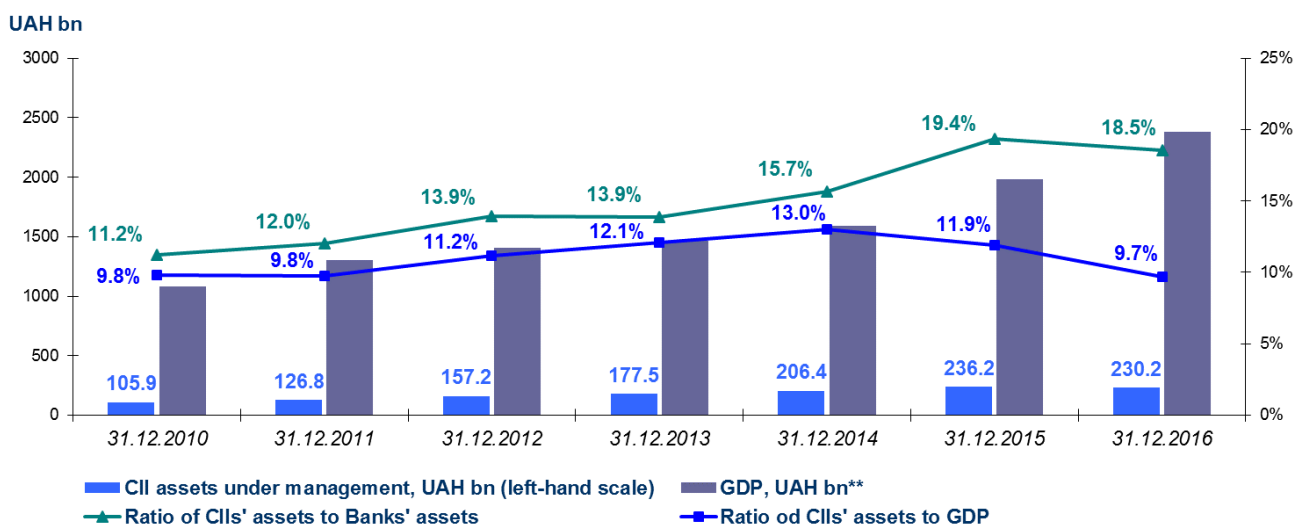


Chart 8. Dynamics of CII against GDP and Bank sector of Ukraine in 2010-16

During 2016 industry's assets showed usual growth, but the 4-th quarter became an exception: not only the assets of *CII with public*, which were largely influenced by developments in the stock market, *decreased*, but *assets of venture funds* too.

For the year **sector of venture CII** decreased by UAH 3,402.4 mln. (-1.5% after, after +15.4% in 2015) to UAH 222,138.5 mln. Reduction, however, took place only in the 4th quarter (-UAH 22,646.5 mln., -9.3%).

Assets of CII, except venture ones, had multidirectional results in October-December, as well as for the whole 2016. Upward dynamics of stock indices in 2nd-3rd quarters contributed to positive results of CII with

public issue, although the 4-th quarter brought a decline. **Interval CII and closed-end CII with public issue**, however, increased in Q4 2016 (+2.0% and +0.6%, respectively), and **open-ended CII**, which suffered a decrease of assets by 0.5% during this period, also showed growth (+5.0%) by results of the year - the first time since 2010.

Total assets **of non-venture CII** for Q4 2016 decreased by 8.8%, in 2016 - by 24.3%, to UAH **8,049.5 mln.** (Chart 9). It primarily was associated with a reduction of assets of closed-end CII with private issue, particularly in the 4-th quarter, including due to closure of some of these funds.



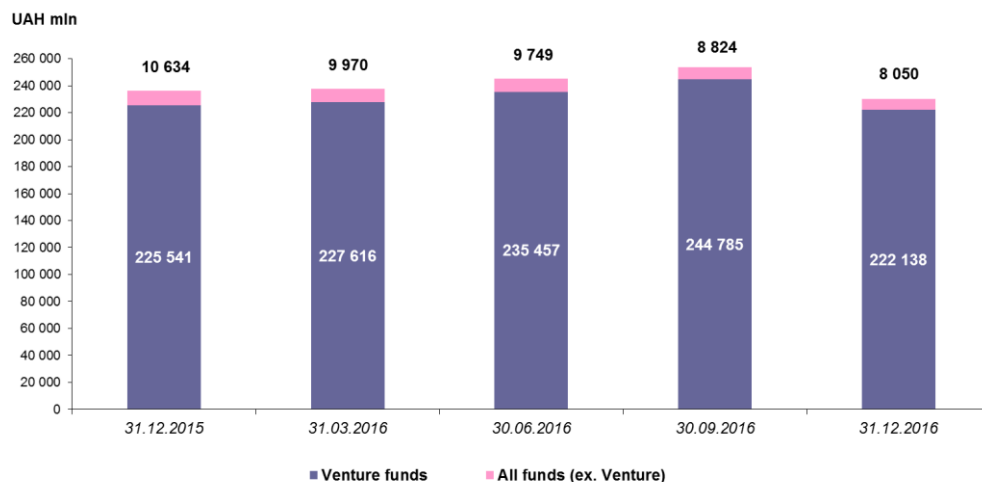


Chart 9. Dynamics of CII asset value in Q4 2016 and 2016

**The net asset value of CII** in 2016 dropped from UAH 199,861.1 mln. to **UAH 188,331.6 mln. (-5.8%**, in 2015 - +10.8%) (Table 5). Downward trend was strengthened by further reduction of number of acting funds that had submitted reports: in 2016 it decreased from 1047 to 1031, including of venture ones - from 916 to 915). At the same time **open-ended CII** showed the first for 6 years annual growth (+5.1%).

During the 4-th quarter net assets of CII lost 11.3%. NAV of venture funds fell by 11.5%, of closed-end CII with private issue – by 12.8%, and of open-ended CII - also decreased, but only by 0.8%. At the same time, interval and closed-end funds with public issue showed increase of net assets (+2.0% and +0.5%, respectively) – in conditions of reducing the number of active funds that had filed reports by one in each of these sectors.

Table 5. Dynamics of CII NAV by fund types in Q4 2016 and 2016, UAH, mln.

Funds	31.12.2015	31.03.2016	30.06.2016	30.09.2016	31.12.2016	Q4 2016 change	2016 Change
Open-ended	54.9	53.5	54.2	58.2	57.7	-0.8%	5.1%
Interval	87.9	68.8	57.8	63.7	65.0	2.0%	-26.1%
Closed-end (ex. Venture), incl.:	9 809.6	9 437.9	9 115.5	8 244.1	7 546.2	-8.5%	-23.1%
with public issue	3 663.0	3 284.6	3 252.2	2 698.5	2 712.6	0.5%	-25.9%
with private issue	6 146.6	6 153.3	5 863.3	5 545.6	4 833.6	-12.8%	-21.4%
<b>All funds (ex. Venture)</b>	<b>9 952.5</b>	<b>9 560.1</b>	<b>9 227.5</b>	<b>8 366.0</b>	<b>7 668.9</b>	<b>-8.3%</b>	<b>-22.9%</b>
Venture funds	189 908.7	193 158.3	200 474.9	204 040.7	180 662.6	-11.5%	-4.9%
<b>All funds</b>	<b>199 861.1</b>	<b>202 718.5</b>	<b>209 702.3</b>	<b>212 406.6</b>	<b>188 331.6</b>	<b>-11.3%</b>	<b>-5.8%</b>

\* Acting CII that have reached the norm for minimum amount of assets (were recognized as valid), are managed by AMC and provided statements for the relevant period (on the reporting date)

A more rapid reduction in the NAV of non-venture CII compared to venture ones in 2016 contributed to the continuation of the trend towards increasing the latter's weight in the aggregate NAV of CII, from 95.0% at the

beginning of the year to 95.9% at its end (Chart 10). At that, growth of net assets of open-ended funds for the year did not significantly affect the sector's share (0.03% of the net assets of all CIIs).

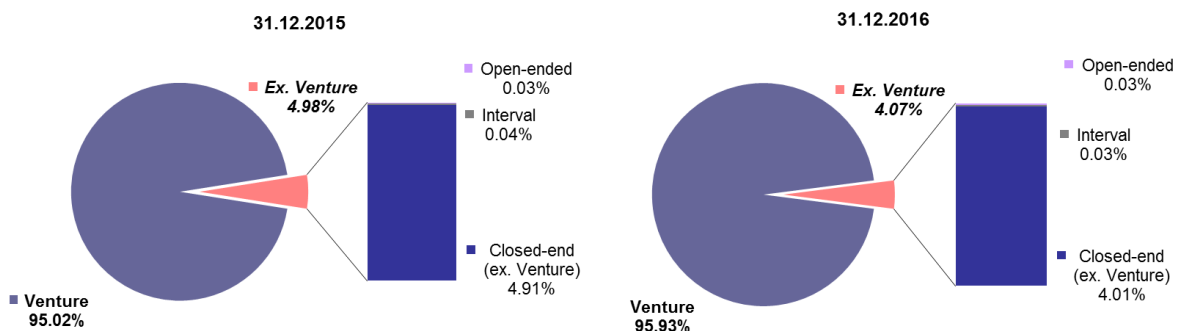


Chart 10. CII NAV Breakdown, by Fund Types, at the beginning and at the end of 2016

Much more moderate decline in NAV of open-ended CII compared to closed-end funds (with private issue) in the 4th quarter contributed to a slight increase of their weight in the aggregate NAV of non-venture CII. Quarterly growth of interval funds ensured a more substantial increase for them (from 0.76% to 0.85%). The annual dynamics of open-ended CII, which were the only

one sector that showed growth in 2016, as well as a sharp reduction in NAV of interval and closed-end CII (by 20% and more) increased the weight of the first ones from 0.55% to 0.75% of total net assets of all non-venture funds, while interval funds slightly reduced their weight, and the main redistribution occurred due to closed-end funds (from 98.56% to 98.40%, chart 11).

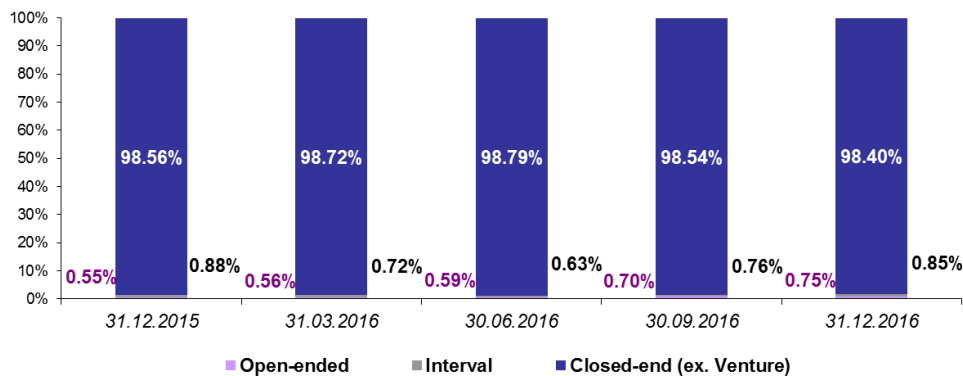


Chart 11. Dynamics of non-Vventure CII NAV breakdown, by fund types in Q4 2016 and 2016

### **2.3. Net Flow of Capital in Open-Ended CII**

The dynamics of the Ukrainian stock market, in particular of the UX index, in 2016 mainly contributed to the growth of assets of open-ended CII and weakening of net outflow from them. At the same time, it provided opportunities for some fixing of profits based on the results of the second and third quarters - and investors took advantage of them in April-June, while the continuation of the market growth in July-September was obviously perceived as a positive signal for the long-term uptrend.

By the results of 2016, the weakened outflow did not prevent the growth of the sector's NAV, while in previous years the negative movement of capital accelerated its decline significantly (in 2014-15 it amounted to 86% and 82% of NAV's reduction).

**Annual outflow of capital from open-ended CII in 2016** fell by almost 61%, from -UAH 4.3 mln. to -UAH 1.7 mln. So, its reduction continued the fourth year in the row (-88% in 2015, -23% in 2014 and -11% in 2013), although it remained negative for 5.5 years. At that the average number of funds operating in 2016 decreased by another 5 (similar to 2015 and 2014), ie by 20%.

As in previous years, positive movement of capital was periodically observed in the sector during 2016: net inflow was recorded by the results of 3 months (in 2015 - by the results of 4 months, in 2014 - by the results of two months) - July-August and October (Chart 12, table 6). This ensured a net increase by the results of the third quarter (Chart 13).

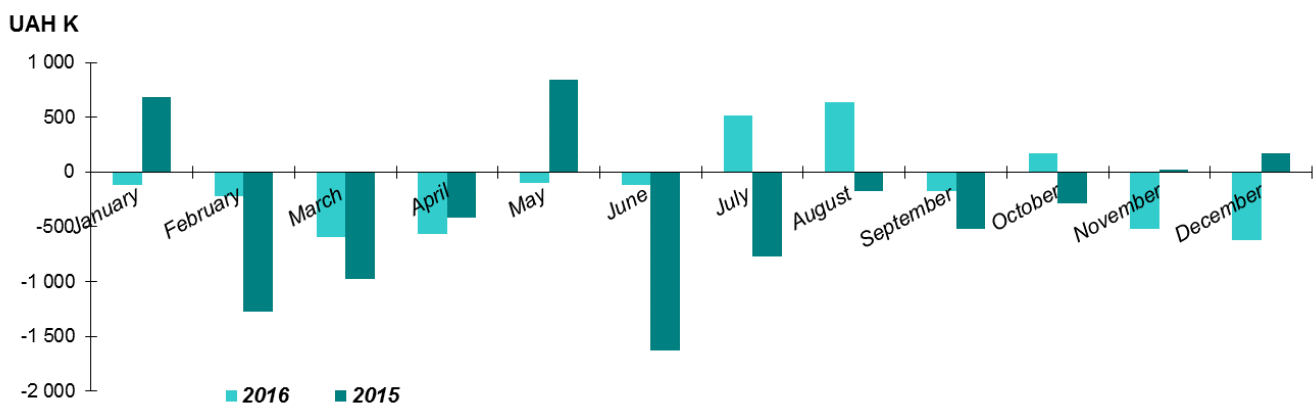


Chart 12. Monthly net inflow/outflow of capital in open-ended CII in 2015-2016 (based on daily data)

*Table 6. Monthly net inflow/outflow of capital in open-ended CII in 2011 -2016\**

Period	Net inflow/outflow						Number of funds on which data for the period are available*					
	2011	2012	2013	2014	2015	2016	2011	2012	2013	2014	2015	2016
January	-449	-7 987	-363	-10 446	680	-119	31	38	41	29	24	21
February	-3 090	-7 952	-1 392	-2 844	-1 271	-217	34	38	41	30	24	20
March	15 091	-10 032	1 297	-804	-978	-590	35	38	41	30	24	19
April	7 172	-4 748	-3 870	-10 437	-413	-563	35	36	42	29	23	19
May	8 682	-3 323	-70	398	840	-99	35	38	39	29	23	16
June	2 505	-2 579	-8 467	-2 130	-1 626	-118	33	40	39	31	24	16
July	-44	-2 690	-5 268	-8 861	-767	519	36	40	38	27	23	18
August	-11 041	-3 025	-15 623	-165	-176	634	38	40	36	27	20	18
September	-6 343	-1 873	-2 360	-144	-520	-177	39	40	35	28	21	18
October	-7 217	-3 333	-8 137	-1 753	-285	167	40	40	33	27	24	19
November	-23 655	-3 963	-2 445	-322	24	-515	40	40	31	25	23	18
December	-6 138	-2 532	-1 508	329	175	-618	38	40	31	25	21	17
<b>Year</b>	<b>-24 525</b>	<b>-54 036</b>	<b>-48 207</b>	<b>-37 179</b>	<b>-4 316</b>	<b>-1 697</b>	<b>36</b>	<b>39</b>	<b>37</b>	<b>28</b>	<b>23</b>	<b>18</b>

\* Based on daily data.

\*\* For the year - the average for 12 months.

During 2016 there was a movement of capital in the majority of open-ended CII (totally 15 out of average 18 for the year). The influence of individual funds on aggregate index of the sector in some months of the year was significant, and for the entire year three open-ended CII succeeded to attract a net inflow in the amount, which reduced outflow from the sector almost by half (+UAH 1.6 mln.). Almost 98% of this inflow was obtained by one of these three CIIs. Among the remaining 12 open-ended funds, which had net outflows by the results of 2016, three funds formed 2/3 of the outflow.

**In the 4th quarter total net capital flows in open-ended CII returned to the negative zone and totaled -UAH 0.97 mln.** (after +UAH 0.98 mln. in Q3 2016). During this period, net outflows not only remained a key factor in reducing of net assets' value of the sector of open-ended funds, but also determined the direction of its change, since it exceeded decrease of NAV during this time

in more than three times (while in the 3rd quarter it provided 24% of growth of sector's NAV).

The number of open-ended CII, which had net outflows, increased from 6 in July-September to 12 in October-December, and the amount of funds which received net inflows -reduced from 5 to two, with minor net inflow.

The largest quarterly outflow in 2016 took place in the 4th quarter, although the rate of the 1-st quarter was only slightly lower (Chart 13).

The net inflow of UAH 1 mln., which was obtained by the sector in the 3rd quarter, was the first since the 2-nd quarter of 2011, after 20 consecutive quarters of outflows (totally, almost -UAH 200 mln., without taking into account changes of money's value in time). The movement of capital in the 4-th quarter actually leveled changes in the third one - the annual outflow was almost the same as the indicator for the first six months (Chart 14).

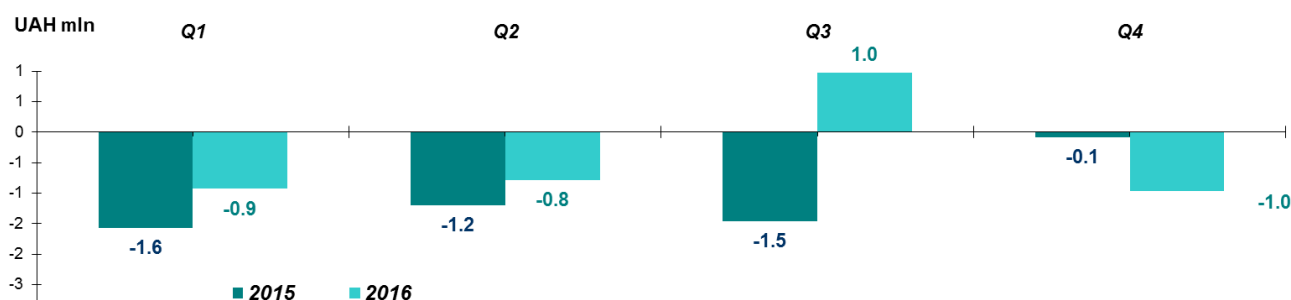


Chart 13. Net inflow/outflow of capital in open-ended CII in 2015-2016, quarterly

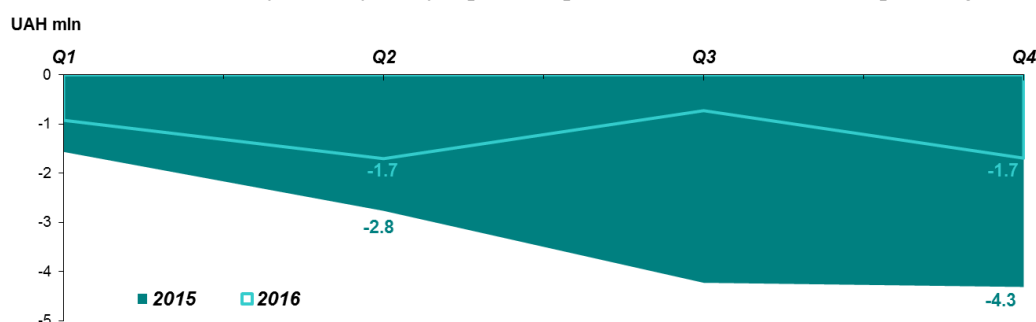


Chart 14. Net inflow/outflow of capital in open-ended CII in 2015-2016, quarterly, accumulated

## **2.4. Investors of CII**

During 2016 **legal entities - residents** remained the biggest investors of CII, although their total investment fell sharply for the first time, and definitely this determined the decrease in assets of CII

(-UAH 23.61 bln., after +UAH 10.66 bln. in 2015 and +UAH 14.95 bln. in 2014). The lion's share of this reduction occurred in the 4th quarter (-UAH 22.62 bln. ).

The tendency of reduction of these investors' weight in the CII NAV, however, remained in 2016: in all funds - from 74.1% to 68.4% and in venture ones - from 75.3% to 69.9% (Chart 15). Reduction took place in the 2-4 quarters.

In *open-ended CII* investments of Ukrainian companies changed slightly during 2016 –annual reduction's amount was –UAH 0.24 mln. (after –UAH 2.68 mln. in 2015, -UAH 0.39 mln. in the 4th quarter). Total assets of other categories of investors in the sector for the year fell less or even increased, so the share of domestic enterprises here continued to decline - to 10.0% (from

11.0% in 2015, 14.4% in 2014).

In NAV of *interval CII* weight of these investors in 2016 fell sharply - from 52.3% to 14.1% - the main reduction of investments held in the 1-2 quarters, and totally for the year assets of legal entities- residents decreased here by UAH 39.09 mln. (including in the 4th quarter – by UAH 0.75 mln.).

In *closed-end funds* (venture excluded) assets owned by Ukrainian legal entities decreased this year by UAH 2,389.21 mln. (including by UAH 863.76 mln. in the 4th quarter), and their share in NAV of these CII - from 51.6% to 33.6%. The sharp decrease in the weight of this category of investors in closed-end funds, besides reduction of investments by them, was amplified by increasing assets of individuals-residents in these CII (+UAH 357.84 mln., after +UAH 479.30 mln. in 2015).

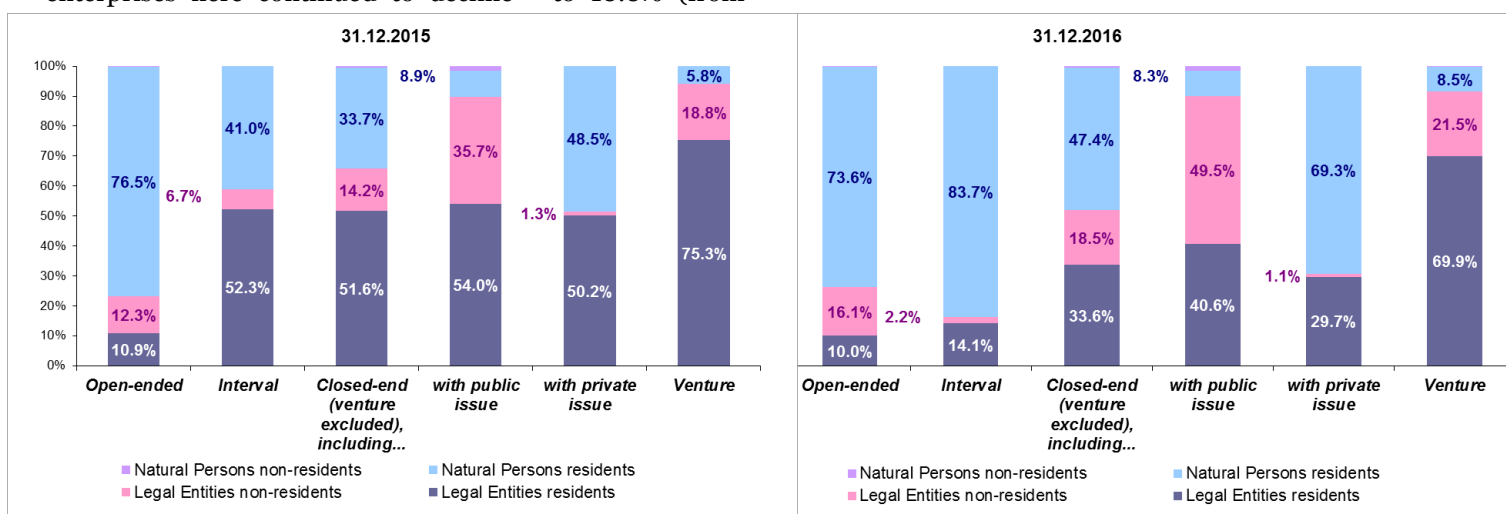


Chart 15. Investments into CII by categories of investors at the beginning and at the end of 2016, share in the NAV<sup>6</sup>

**Citizens of Ukraine** in 2016 continued to increase investments in CII almost by the same rate as in 2015: their total assets in all funds for the year increased by UAH 3,973.04 mln. (after UAH 3,722.06 mln.), and UAH 933.40 mln. out of them - in the 4th quarter.

Unlike in previous years, these investors were interested in all types of CII - their total investments increased in each sector. Assets of individual investors increased mostly in venture CII (+UAH 3,598.10 mln., including +UAH 672.66 mln. - in the 4th quarter).

Investments of retail investors in open-ended funds also increased slightly (+UAH 0.44 mln, including +UAH +0.21 mln. in the 4th quarter). The share of these investors in venture funds increased for the year from 5.8% to 8.5%, in open-ended funds - fell from 76.5% to 73.6% (because of more active increasing of foreign companies' presence in the sector).

**Participation of foreign investors, in particular legal entities**, in CII in 2016 continued to increase both in absolute terms and in relation to other categories of investors. The increase in total assets' value of these participants for the year occurred only in open-ended

<sup>6</sup> Without taking into account CII bearer securities in circulation.

and venture CII (+UAH 2.57 mln. and +UAH 1,761.40 mln., respectively), while in the 4-th quarter growth was only in the sector of interval CII (+UAH 0.64 mln.).

In all CII together assets of foreign investors—legal entities in 2016 increased by UAH 1,747.32 mln. (in 2015 – by UAH 4,983.58 mln. ), despite the decrease by UAH 2,520.42 mln. - in the 4th quarter.

As at 31.12.2016, these investors increased their share in the NAV of CII from 18.6% to 21.4%, at that from 12.3% to 16.1% - in open-ended CII, from 14.2% to 18.5% - in closed-end CII (except venture ones), in particular in funds with public issue - from 35.7% to 49.5%, and also from 18.8% to 21.5% - in venture funds. In interval CII their weight fell for the year from 6.7% to 2.2%.

**Foreign citizens** in 2016 increased their investments relatively significantly only in venture funds - by UAH 131.47 mln, including UAH 8.40 mln. - in the 4th quarter. Total assets of these investors increased for the year in all CII by UAH 123.24 mln. (by UAH 10.46 mln. - in the 4th quarter).

Like last year, they also symbolically increased in open-ended funds.

**Totally, investors-residents** as at 31.12.2016 had UAH 141.65 bln. in all CII, including UAH 135.13 - in venture ones; **non-residents** – UAH 38.75 bln. in all CII, including UAH 37.30 - in venture ones.

**Number of investors in CII** decreased in all sectors of CII in the 4th quarter, as well as by results of the entire 2016, and as at 31.12.2016 totally it amounted to

261,284 of legal entities and individuals (table 7). For the year the number of CIIs' investors decreased by 1,914, including by 962 in *open-ended CII*. For the 4th quarter it decreased by only 266, including by 20 - *in open-ended CII*, and most of all – by 172 - *in venture ones*.

**The number of domestic enterprises-investors** in all CII for the year decreased by 390, and in the 4-th quarter - by 162.

In the 4th quarter **retail investors - citizens of Ukraine** were the most active among those who left out *from open-ended and interval CII* (-19 and -49 persons, respectively), whereas Ukrainian companies - *from venture CII* (-139). Number of participants *in closed-end CII with private issue* (venture excluded) decreased during this time relatively the most significant - by 5.0% (-15 , including -12 legal entities -residents).

At the same time, **number of foreign companies-investors** increased in the 4-th quarter in *interval CII* (+1), *closed-end CII with private issue* (venture excluded, +3), and **number of foreign citizens in closed-end CII with public issue** (+1).

Overall, the number of **non-resident investors** in Q4 2016 decreased by 29 (in venture CII - by 32, in other closed-end CII - increased by 3), and in 2016 – by 36 (in venture CII- by 35).

During 2016 only the number of foreign enterprises increased symbolically in *closed-end non-venture CII* (+1) and number of Ukrainian citizens - *in venture CII* (+7).

*Table 7. Investors of CII, by categories, as at 31.12.2016, number and share in the total amount*

Funds	Legal Entities				Natural Persons			
	residents		non-residents		residents		non-residents	
Open-ended	16	0.94%	7	0.41%	1 670	98.58%	1	0.06%
Interval	21	0.01%	3	0.00%	249 994	99.98%	18	0.01%
Closed-end (venture excluded), incl.	407	8.35%	28	0.57%	4 432	90.91%	8	0.16%
with public issue	189	4.12%	18	0.39%	4 377	95.32%	8	0.17%
with private issue	218	77.03%	10	3.53%	55	19.43%	0	0.00%
<b>All (venture excluded)</b>	<b>444</b>	<b>0.17%</b>	<b>38</b>	<b>0.01%</b>	<b>256 096</b>	<b>99.80%</b>	<b>27</b>	<b>0.01%</b>
Venture	3 739	79.91%	460	9.83%	471	10.07%	9	0.19%
<b>All Funds</b>	<b>4 183</b>	<b>1.60%</b>	<b>498</b>	<b>0.19%</b>	<b>256 567</b>	<b>98.19%</b>	<b>36</b>	<b>0.01%</b>

## **2.5. Asset Structure of CII**

**Securities** in 2016 renewed growth of their weights in assets of all sectors of CII, except for closed-end non-venture ones. At that, they remained the major component of *open-ended and interval funds* (67.3% and

74.8%, respectively). **“Other” assets**<sup>7</sup>, the same as before, held the largest position in assets of *venture and other closed-end funds*, although in first ones their share decreased to 74.3%, and in the second - rose to 56.9%.

<sup>7</sup> «Other assets» include receivables, corporate rights in other forms than securities, receivables, including loans to the companies, a stake in the capital of which belongs to the CII (for venture funds).



In venture funds "other" assets in 2016 declined for the first time (-UAH 4,459.6 mln., after +UAH 34,859.45 mln. in 2015), at that the decline occurred during the 4th quarter (-UAH 19,526.37 mln.).

**Monies** also increased in value and weight in the consolidated assets in sectors of *open-ended*, *interval* and *closed-end non-venture CII* (24.8%, 14.4% and 15.6%, respectively, Chart 16).

Money in 2016 still were the third largest type by amount of assets in these sectors of CII. Their total value decreased only in closed-end CII (with public issue) in the 4th quarter.

Growth of weight of assets in securities for the year was facilitated by increase of their aggregate value in the sectors of *open-ended* and *venture CII*, against the

backdrop of a rise in the stock market in the 2nd-3rd quarters, while in *interval CII* it took place despite a decrease of investments in stock instruments - due to a sharp reduction of "other" assets.

In the 4th quarter the share of financial instruments in assets increased in *interval*, *closed-end (with public issue)* and *venture CII*: in the first and second ones - by increasing investments in government bonds and reduction of "other" assets (in interval CII); in venture funds- due to much more active reducing of "other" assets, despite decrease of the total value of all types of securities in the sector's assets (excluding derivatives). In open-ended CII stock portfolio decreased during this period, mainly due to equities.

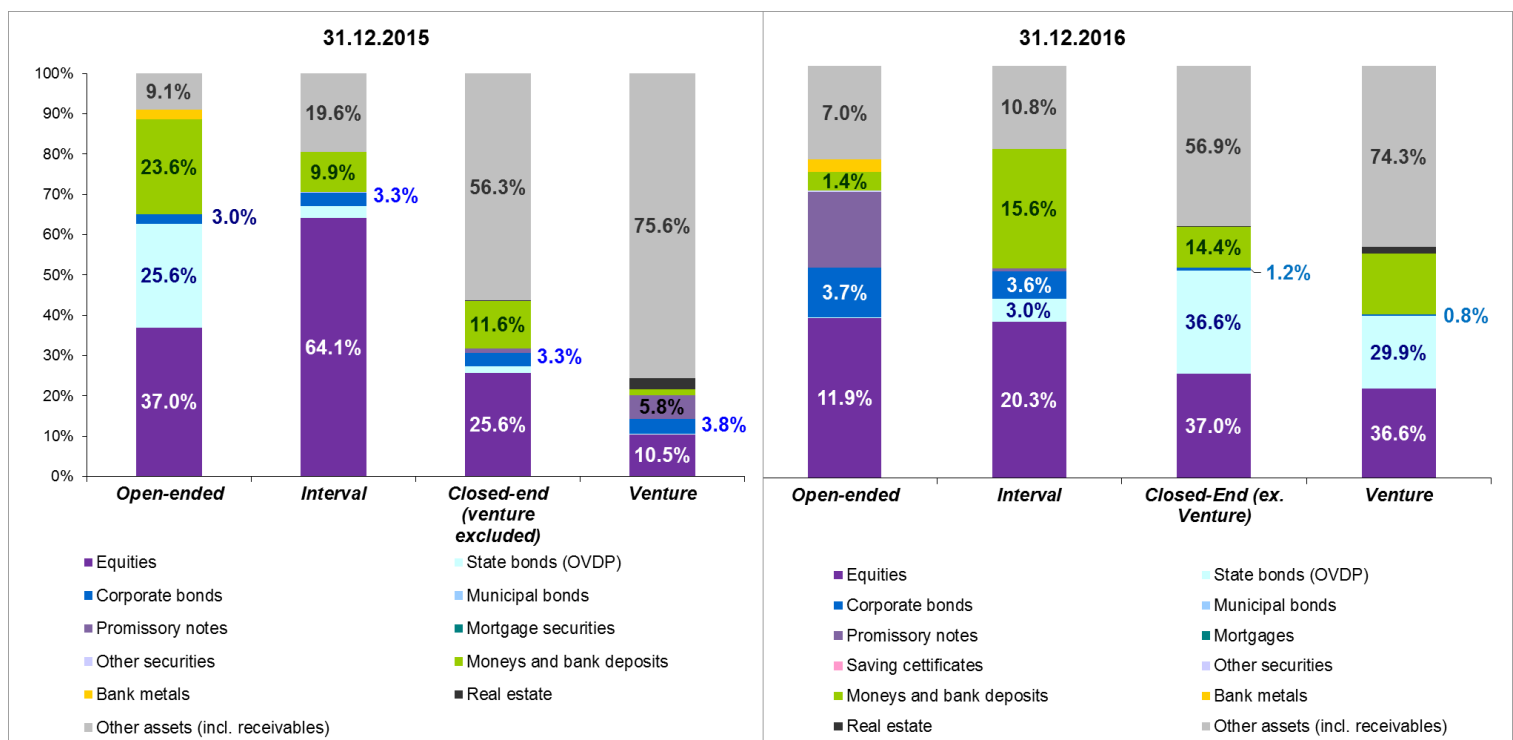


Chart 16. CII asset structure by fund types at the beginning and at the end of 2016

**Equities** in 2016 held the first position among the types of securities by volume of investments in all sectors of CII by types of funds, except interval ones, where they at the year-end had almost the same share as government bonds (37%, after 64% in 2015). For the whole year the total value of equities increased in open-ended funds, closed-end CII with public issue and venture funds.

In the 4th quarter, in conditions of corrections in the stock market, the share of equities decreased in assets of all sectors of CII, except closed-end CII with private issue (venture included). At that the total value of equities decreased for the quarter in all sectors of CII.

**Government bonds (OVDP)** in 2016 increased further their popularity among CII: total investments in these instruments in all funds together increased in the 4th quarter, as well as for the whole year. All funds' sectors increased them (except closed-end CII with private issue, including venture funds, in the 4th quarter). Accordingly, the weight of government bonds increased also in each sector of CII – in October-December, as well as for the whole 2016.

**In aggregate portfolio of all CII's securities** at the end of 2016 **equities** increased their weight from 53.8% to 56.3% (in Q3 2016 - 54.2%). The aggregate value of equities in assets of all CII for the year rose to UAH

28,177.6 mln. (+UAH 1,953.9 mln., after -UAH 8,189.58 mln. in 2015). Quarterly dynamics was also contrary to 2015: in the 4-th quarter of 2016 total CII's investments in equities decreased by UAH 2,149.2 mln. (compared to UAH 2,709.2 mln. at the end of 2015) (Table 8).

**Promissory notes** also became less in the 4th quarter - by UAH 3,193.2 mln., at that for the whole year 2016 their total value decreased only by UAH 551.6 mln. (-UAH 2,482.2 mln. in 2015). The share of these instruments in the CII's portfolio of securities during the year also fell from 27.1% to 25.3% (in the 3-rd quarter - 28.3%).

**Corporate bonds** in 2016 also reduced their presence in the stock portfolio of CII (-UAH 399.5 mln., after +UAH 517.34 mln. in 2015) - mainly because of the dynamics in the 4-th quarter (-UAH 777.5 mln.). Finally, their weight in the aggregate portfolio of CII fell from 18.3% to 17.0% for the year 2016 (in Q3 2016 - 16.6%).

Aggregate value and share **of derivatives** increased significantly during this year (due to venture CII) - from 0.2% to 0.5% (+UAH 169.6 mln.).

Table 8. CII aggregate securities portfolio, by security type, in 2016

Security type	Aggregate value of the security in CII portfolios, UAH		2016 Change		Share in the aggregate portfolio of CII's securities	
	31.12.2015	31.12.2016	UAH	%	31.12.2015	31.12.2016
Equities	26 223 626 778	28 177 562 518	1 953 935 740	7.45%	53.83%	56.33%
Promissory notes	13 206 033 533	12 654 462 901	-551 570 632	-4.18%	27.11%	25.30%
Corporate bonds	8 899 776 141	8 500 311 317	-399 464 825	-4.49%	18.27%	16.99%
State bonds (OVDP)	292 315 680	432 670 110	140 354 431	48.01%	0.60%	0.87%
Derivatives	72 359 610	242 003 681	169 644 071	234.45%	0.15%	0.48%
Mortgage securities	20 227 413	12 650 612	-7 576 801	-37.46%	0.04%	0.03%
<b>Total</b>	<b>48 714 339 155</b>	<b>50 019 661 139</b>	<b>1 305 321 984</b>	<b>2.68%</b>	<b>100.00%</b>	<b>100.00%</b>

**Equities** in 2016 declined significantly by their weight **in stock portfolio of CII (except venture ones)** - from 80.4% to 73.6%, while in the 4th quarter - they increased from 57.8% in Q3 2016. At that, the aggregate value of these funds' equities decreased by UAH 196.0 mln. and for the year - by UAH 442.9 mln. (after -UAH 2,018.2 mln. in 2015). This helped to increase the weight of **corporate bonds** in portfolio of these CII from 10.2% to 12.7% (in Q3 2016 - 10.4%).

**Government bonds** were the only one type of securities, total investments of which and share in portfolio of non-venture CII grew in the 4-th quarter, as well as for the year (+UAH 95.6 mln. and +UAH 174.0 mln., respectively). Thus, their weight increased here more than in 2 times - from 5.5% at the beginning of the year by 5.7% in the 3<sup>rd</sup> quarter to 12.3% at end-2016 (table 9).

Table 9. Aggregate securities portfolio of CII (venture excluded), by security type, in 2016

Security type	Aggregate value of the security in CII portfolios, UAH		2016 Change		Share in the aggregate portfolio of CII's securities	
	31.12.2015	31.12.2016	UAH	%	31.12.2015	31.12.2016
Equities	2 763 445 840	1 657 148 506	-1 106 297 335	-40.03%	80.41%	73.62%
Corporate bonds	350 308 535	286 584 018	-63 724 516	-18.19%	10.19%	12.73%
State bonds (OVDP)	190 178 156	277 722 480	87 544 324	46.03%	5.53%	12.34%
Promissory notes	132 804 823	29 561 397	-103 243 426	-77.74%	3.86%	1.31%
<b>Total</b>	<b>3 436 737 354</b>	<b>2 251 016 401</b>	<b>-1 185 720 953</b>	<b>-34.50%</b>	<b>100.00%</b>	<b>100.00%</b>

**Diversified CII** in 2016 reduced the portfolio of securities more than doubled (after 4-fold - in 2015), to UAH 115.2 mln. **Equities** retained leadership among types of securities (80.1%, after 86.9% in 2015, 80.7% in the 3<sup>rd</sup> quarter, Table 10).

**Government bonds** also kept their position - their share at year-end amounted to 18.9% of the total value of these CII's portfolio (after 6.8% in 2015, 17.7% in

Q3 2016). The total investments in these securities here increased for the quarter by UAH 0.6 mln., for the year - by UAH 4.5 mln.

**Corporate bonds** in Q4 2016 added their value by UAH 1.2 mln., but for the year they decreased by UAH 3.8 mln. However, their weight in the portfolio of diversified CII fell from nearly 2% to 1.1% (1.6% in Q3 2016).

*Table 10. Aggregate securities portfolio of diversified CII, by security type, in 2016*

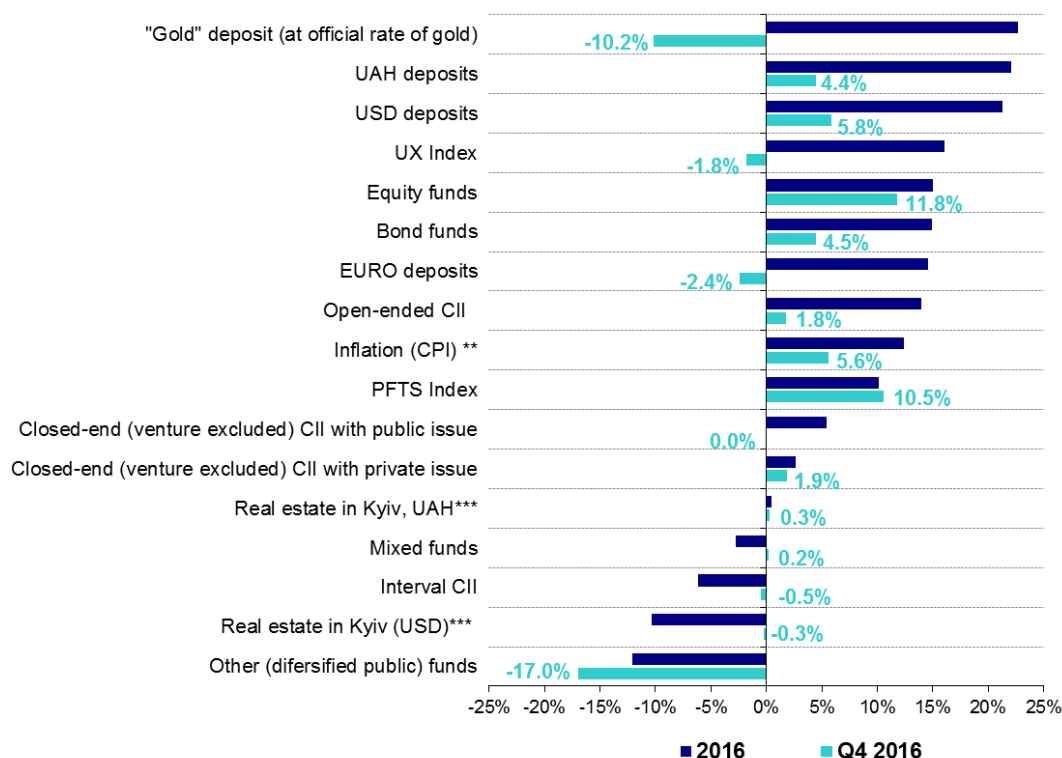
Security type	Aggregate value of the security in CII portfolios, UAH		2016 Change		Share in the aggregate portfolio of CII's securities	
	31.12.2015	31.12.2016	UAH	%	31.12.2015	31.12.2016
Equities	219 100 725	92 245 966	-126 854 758	-57.90%	90.79%	80.10%
State bonds (OVDP)	17 242 242	21 707 064	4 464 822	25.89%	7.14%	18.85%
Corporate bonds	4 988 440	1 206 154	-3 782 286	-75.82%	2.07%	1.05%
Promissory notes	10 698 938	0	-10 698 938	-100.00%	4.43%	0.00%
<b>Total</b>	<b>241 331 407</b>	<b>115 159 184</b>	<b>-126 172 222</b>	<b>-52.28%</b>	<b>100.00%</b>	<b>100.00%</b>

## 2.6. CII Rates of Return

The rise in the stock market, which lasted nearly six months, in the 2-3 quarters of 2016 helped to increase profitability of CII in 2016, in particular of those funds, which were focused on investments in equities. Some funds with public issue, in particular among open-ended CII, had annual returns that significantly outperformed the index UX, and the average indicators of equity and bond funds'

rates of return were close to augmentation of the indicator for 2016 (Chart 17).

The same classes of assets had the highest rates of return in the 4<sup>th</sup> quarter, and closed-end (non-venture) CII with private issue and open-ended CII - among sectors of CII by types of funds.



*Chart 17. Rates of return – CII, deposits, equity indexes and inflation rates in Q4 2016 and 2015<sup>8</sup>*  
*Ranking by the annual rate (2016), figures are given for the Q4 2016*

<sup>8</sup> Inflation is provided according to the State Statistics Service of Ukraine (consumer price index for goods and services in 2016 (December till December of the previous year)). Rates of return for real estate in the US dollars is calculated as the average of data on the value of real estate in Kiev portals: <http://www.domik.net>, <http://100realty.ua>, <http://realt.ua>; in Hryvnia – based on data from portal: <http://100realty.ua>.

*Among the various areas of investments* in 2016, the same as before, *deposits were leaders by rates of return*, in particular *in gold* (+22.7%, after +39% in 2015), *in hryvnia* (+22.1%, after 23.0%) and *in dollars of USA* (+21.2%, after +67%), as devaluation of hryvnia continued, albeit in slower pace, and rates of deposits in national currency at the beginning of the year were still high<sup>9</sup>.

The average yield of **open-ended CII** in Q4 fell from +6.6% to +1.8%, at that different funds showed from -2.2% to +4.6%.

For 2016<sup>10</sup> the range of rates of return in the sector shifted almost entirely into the positive zone – from -4.2% to +39.7% (-93.0% to +28.5% in 2015). The average **annual income** in the sector, according to data at the beginning and at the end of 2016, rose actually to the level of year 2013 - up to +14.7% (from -3.0% in 2015), while the number of active funds, which were working during the whole year, decreased from 22 to 18. Based on quarterly reports, annual yield rose from -4.1% to +14.0%. *Increase of investments for the year was provided by 16 open-ended CII* (89%, after 46% in 2015), at that 7 funds had rates of return higher than index UX, 10 brought more income than deposits in euros, and two funds were more profitable than "gold" contributions.

In the sector **of interval CII** average yield of investments in the 4<sup>th</sup> quarter fell from +0.8% to -0.5%, and the range of individual results was from -17.0% to +6.5%. **Annual revenue**, based on quarterly data, fell **from +0.5% to -6.2%** (respectively, for 22 and 19 operating funds).

Value of investments **in closed-end CII with public issue** in Q4 2016 on average virtually unchanged (-0.04%, after +3.6% in Q3 2016). **For the full year**, these funds brought **+5.4%** (after +17.3% in 2015), at that their number decreased from 49 to 46.

**Funds of this type with private issue (ex. venture)** for the quarter showed an average of +1.9% (after -2.6% in the 3<sup>rd</sup> quarter). **For the year** their result rose to +2.6% (from +2.0% in 2015), and the number of such funds decreased from 38 to 32.

*Among diversified CII with public issue by asset classes* leaders by rates of return in 2016 and in the 4<sup>th</sup> quarter were **equity funds** (+15.0%, after -10.0% in

2015). Quarterly results in October-December contributed to this - +11.8% (after +14.5% in the 3<sup>rd</sup> quarter).

**Bond funds** - leaders of the previous year - **in 2016** had virtually the same indicator of rates of return as equity funds, although compared to 2015 it decreased significantly (**+15.0%** vs. +25.4%). In the 4<sup>th</sup> quarter these CII yielded an average of +4.5% (after +3.5% in Q3 2016).

**Mixed funds**, the list of which in the 4<sup>th</sup> quarter increased significantly, showed +0.2% for the quarter (after -0.4% in Q3 2016), **and for the year** again had a negative return: -2.8% after -2.6% in 2015.

**Other diversified funds with a public issue**, the number of which during 2016 increased each quarter from 6 to 10, and at the end of December fell to one, which showed -17.0% in the 4<sup>th</sup> quarter, **for the year** suffered average losses in their securities' value in the amount of -**12.1%** (+5.3% in 2015).

<sup>9</sup> For an adequate comparison of rates of return it is necessary to take into consideration the liquidity of CII, in particular, of open-ended type, which allow to exit from investments on any working day without losing returns, unlike in case of bank deposits, the prevailing majority of which envisage re-calculation of interest income in case of an early release of moneys for the period since the beginning of contract's entry into action based on the rate of return on current accounts. In the meantime, the rates of return calculated do not take into account possible commissions, other costs incurred at entry to/exit from funds, as well as investment profit taxation.

<sup>10</sup> CII rates of return is calculated based on the reported annual data; as at 31.12.2015 data are available for 18 open-ended, 10 interval, 78 closed-end CII (including 47 with public issue and 31 with private issue) See. [CII Ranking](#).

### 3. NPF Asset Management Market Performance

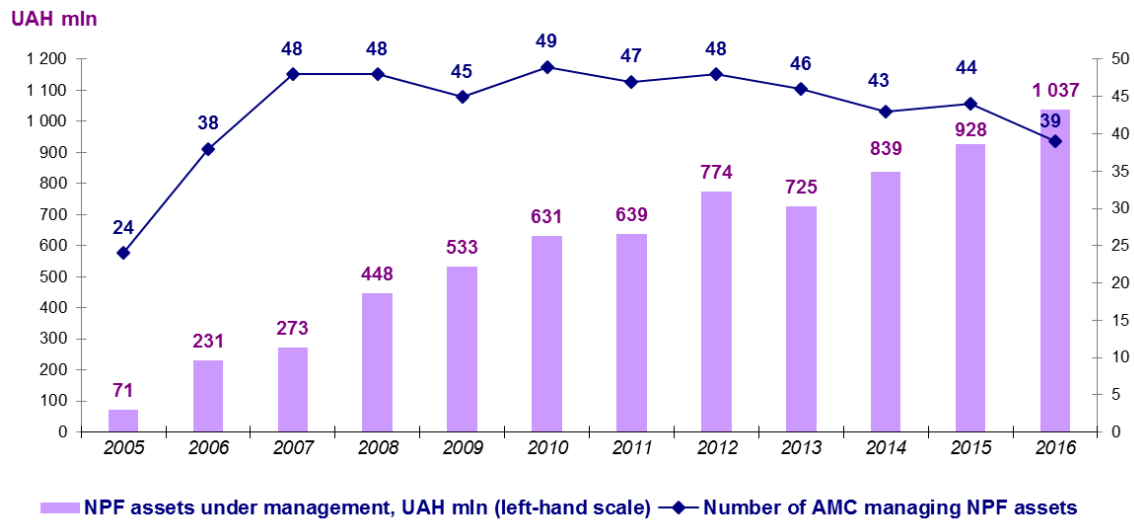


Chart 18. Dynamics of the NPF asset management market in 2005-2016

Table 11. Number of NPF under AMC management, by fund types in Q4 2016 and 2016

NPF Type	31.12.2015	30.09.2016	31.12.2016	Q4 2016 Change	2016 Change
Open	57	50	48	-4.0%	-15.8%
Corporate	8	7	8	14.3%	0.0%
Professional	6	6	6	0.0%	0.0%
Total	71	63	62	-1.6%	-12.7%

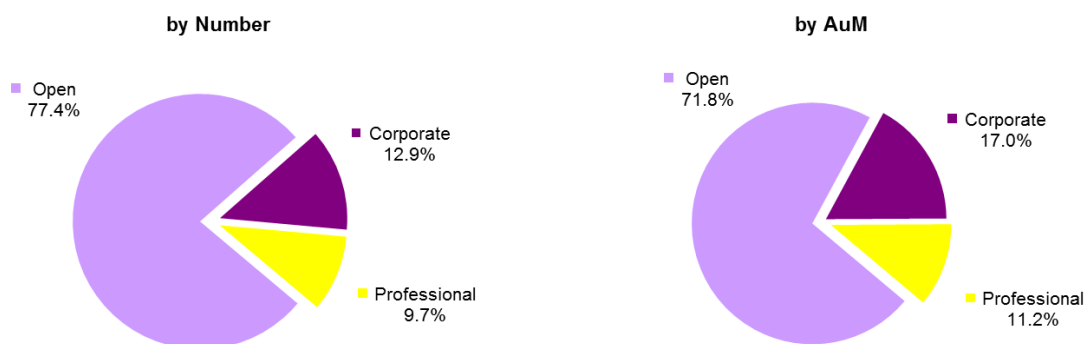


Chart 19. Breakdown of NPF number and their asset value under AMC management, by Fund Types, as at 31.12.2016

The volume of NPF<sup>11</sup> assets under management in 2016 continued to grow, although reduction of the number of AMC, which managed non-governmental pension funds, as well as number of these funds, continued.

**Value of NPF assets under AMC management for the year accelerated growth to 11.7%** (after +10.6% in 2015) – from UAH 928.2 mln. to **UAH 1,036.6 mln.** (Table. 12, Chart 18). This took place despite a dramatic decline of stock exchanges' listing from the beginning of the year, and also despite further mass closure of banks.

<sup>11</sup> Without taking into account the corporate pension fund of NBU.

**Number of pension funds under management** in 2016 declined **by 12.7%** for the year (after -4.1% in 2015) – from 71 to **62 NPF** (except for corporate fund of NBU). As at 31.12.2016, there were 48 open, 8 corporate and 6 professional NPF managed by AMC (table 11).

All NPF which were closed during the year were of open type and, consequently, their market shares decreased (from 80% in 2015 to 77%, Chart 19).

The number of companies that managed NPF in 2016 decreased from 44 to 39.

During Q4 2016 NPF assets under management increased by 0.7%, after +4.8% in Q3 2016 (table 12).



*Table 12. Value of NPF assets under AMC management, by fund types in Q4 2016 and 2016*

NPF Type	31.12.2015		30.09.2016		31.12.2016		Change of NPF assets managed in Q4 2016	2016 Change, %	2016 Change, UAH
	Assets, UAH	Number of NPF reported	Assets, UAH	Number of NPF reported	Assets, UAH	Number of NPF reported			
Open	669 926 537	56	750 149 377	50	744 287 554	46	-0.8%	11.1%	74 361 017
Corporate	146 317 665	8	167 086 482	7	176 171 316	7	5.4%	20.4%	29 853 650
Professional	111 908 733	6	111 873 915	6	116 185 980	6	3.9%	3.8%	4 277 248
<b>Total</b>	<b>928 152 935</b>	<b>70</b>	<b>1 029 109 774</b>	<b>63</b>	<b>1 036 644 850</b>	<b>59</b>	<b>0.7%</b>	<b>11.7%</b>	<b>108 491 915</b>

The biggest sector - **open NPF** - in 2016 again had the largest increase of assets under management in absolute terms (**+UAH 74.4 mln.**), but in relative terms - gave to corporate funds (**+11.1%**, after +13.2% in 2015). Assets amounted to UAH 744.3 mln. at the end of 2016 ensured sector's share of 71.8% in total NPF assets under management (reduction from 72.2% in 2015).

**Assets of corporate NPF under AMC management** grew sharply for the 2016 (**+20.4%**, after +5.9% in 2015) and reached UAH **176.2 mln.**

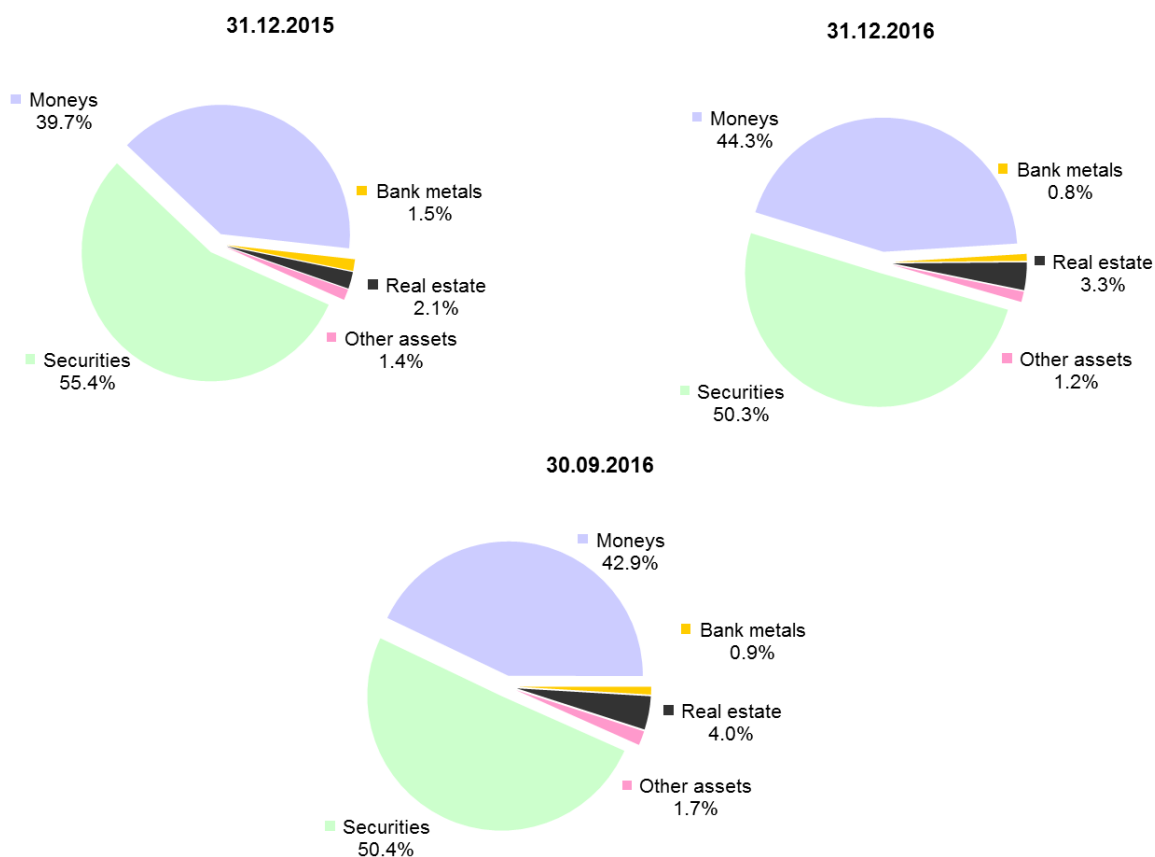
**Professional NPF** shew moderate growth: **+3.8%** (after +2.9% for the previous year) and as at 31.12.2016 amounted to **UAH 116.2 mln.**

**Corporate NPF** (UAH 25.2 mln. after UAH 18.3 mln. in 2015) became **the largest in terms of average**

**volume of assets under management** in 2016, due to a rate of growth, magnitude of which was higher by order compared to professional one.

**Professional NPF** increased the average fund's size to UAH 19.4 mln. (from UAH 18.7 mln. a year ago). Average volume of **open NPF's assets under management** at the end of 2016 remained the smallest one, although it increased significantly during the year - from UAH 12.0 mln. to UAH 16.2 mln.

**In the structure of NPF assets** in 2016 the **share of securities** continued to decline - from 55.4% to **50.3%** (in Q4 2016 it remained almost unchanged, Chart 20).



*Chart. 20. Dynamics of NPF aggregate portfolio structure in Q4 2016 and 2016*

The NPF assets **in securities** rose for the year by UAH 7.5 mln., or by 1.5% (after +UAH 36.4 mln., 7.6% in 2015), including by UAH 2.7 mln. in the 4-th quarter. For the whole year, as well as for the last quarter, **only corporate NPF** provided growth - their total investments in stock assets increased by UAH 11.2 mln. for the year (+14.2%) and by UAH 4.3 mln. for the 4th quarter - to UAH 89.7 mln. (Table 13).

Meanwhile, in **open and professional funds** scope of securities decreased in 2016 within -1%. At that in October-December portfolio of **professional NPFs'** stock assets increased by 1.9%.

Reduction of securities' share in NPF's structure of assets in 2016, as well as in 2015, was also caused by an

order of magnitude faster growth **of moneys**, - by UAH 90.3 mln. (+24.5%, after +16.0% in 2015), including by UAH 17.0 mln. in the 4 th quarter. Growth of money for the year in all sectors of NPF by types of funds was over 20%.

The share of moneys in all NPFs' assets under management increased in 2016 from 39.7% **to 44.3%**.

**Real estate**, the same as before, was in assets of open and professional NPF, **and bank metals** - only in open ones. As a whole, these types of assets, along with others, only slightly increased for the year their share in assets of all managed NPF, although in the 4-th quarter it dropped from 6.6% to 5.3% against a decrease of investments in real estate in the sector of open NPF.

Table 13. NPF AuM structure, by fund types, as at 31.12.2016, UAH

NPF Type	Securities	Moneys	Bank metals	Real estate	Other assets
Open	353 442 087	343 952 759	8 743 559	29 531 909	8 617 240
Corporate	89 696 522	85 795 703	0	0	679 091
Professional	78 500 119	29 007 755	0	5 050 939	3 627 167
<b>Total</b>	<b>521 638 728</b>	<b>458 756 217</b>	<b>8 743 559</b>	<b>34 582 848</b>	<b>12 923 498</b>

**Open funds** provided almost 3/4 of total growth of money assets of all NPF for 2016 (UAH 66.5 mln.), and the share of the most liquid assets in the sector increased from 41.4% to 46.2%. This, together with a reduction of these funds' assets in securities, reduced the share of the latter from 53.2% to 47.5% (Chart 21).

Similar dynamics was observed in structure of **professional NPFs'** assets, where increasing of assets'

share in banks in the consolidated portfolio increased from 21.1% to 25.0%. Weight of the sector's stock instruments, respectively, decreased from 70.9% to 67.6%.

**In corporate NPF** in 2016 money's growth was the fastest and ahead of the stock portfolio's increase, so the weight of first ones continued to increase - from 46.0% to 48.7%, and of the second one - dropped from 53.7% to 50.9%.

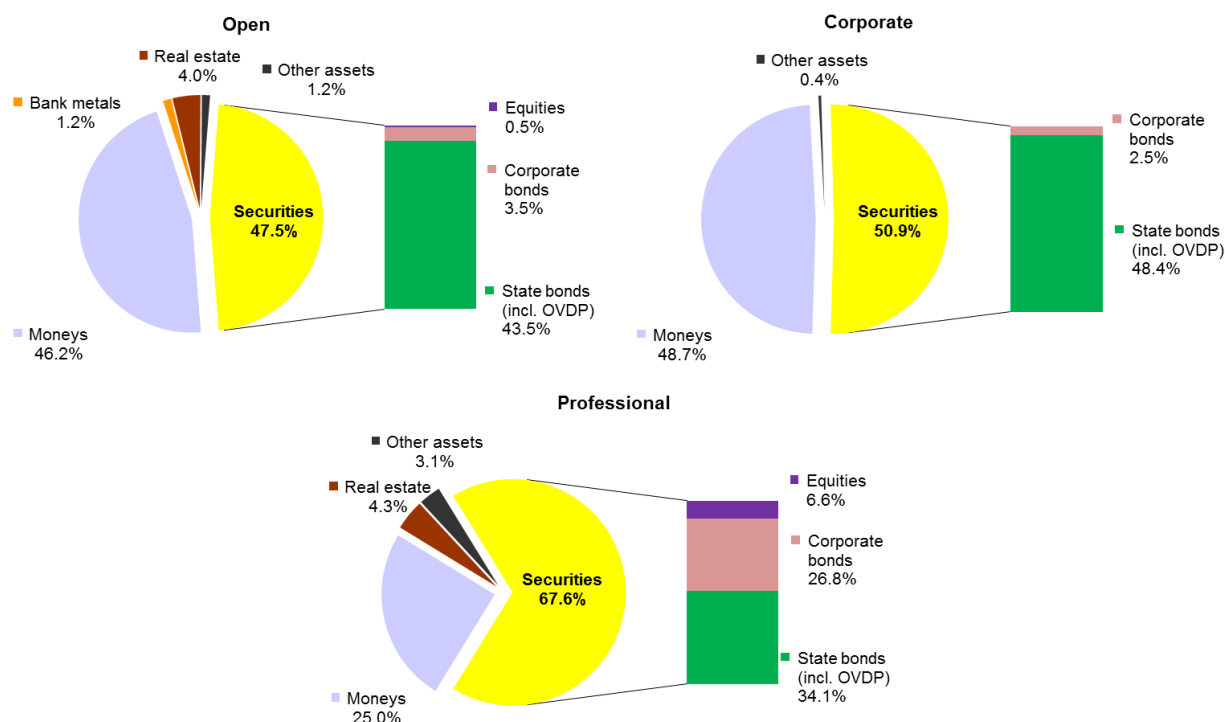


Chart. 21. NPF AuM structure, by fund types as at 31.12.2016

#### **4. Insurance Companies' Asset Management Performance**

In 2016 the assets of insurance companies (IC) under management increased significantly, although this market remained small.

**Number of IC that transferred their assets under management** during the year increased from 5 to

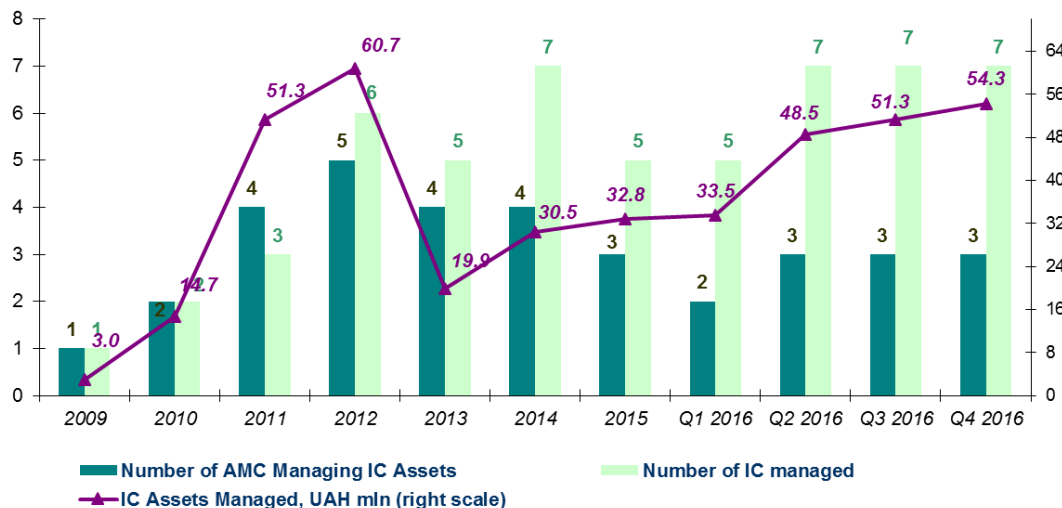
7, and AMC that provided such services - **from 3 to 4** (in both cases - to the level of 2014). At that **ICs' assets under management** increased during the year **by 65.7%** (after +7.5 in 2015 and +53.2% in 2014), and as at 31.12.2016 amounted to UAH **54.3 mln.** (Table 14).

*Table 14. IC Assets under AMC management in 2014-16*

	Number of AMC Managing IC Assets	Number of IC managed	IC Assets Managed, UAH mln (right scale)	Change of IC Assets Managed		
				Quarterly	YTD	Annual
2014	4	7	30.5	-	-	53.2%
2015	3	5	32.8	8.0%	7.5%	7.5%
Q1 2016	2	5	33.5	2.2%	2.2%	0.9%
Q2 2016	3	7	48.5	44.7%	47.9%	72.3%
Q3 2016	3	7	51.3	5.8%	56.4%	69.0%
Q4 2016	3	7	54.3	6.0%	65.7%	65.7%

The impetus for such growth of assets under management was given by the entrance to the market of one another AMC and two IC, which concluded agreements for asset management in the 2nd quarter, when the latter increased by almost 45%.

In Q4 2016 growth of IC assets under management was more moderate (+6.0%), and the number of market participants did not change (Chart 22).



*Chart 22. Dynamics of the IC asset management in 2009-2016*

#### **5. Problematic Aspects of the Asset Management in 2016**

Year 2016 brought improvements in the macroeconomic situation in Ukraine and some stabilization of the financial system, particularly of the banking sector, but the stock market continued to experience new challenges that affected also the dynamics

of the Ukrainian industry of institutional investors' asset management. Among **the key issues affecting the industry in 2016 were**, in particular, the following:

- sharp reduction of the list of available for investments instruments of stock market, in

particular, for pension funds (listed securities), due to introduction of inadequate to the level of economic development requirements for issuers whose securities could be included in the listing on the stock exchanges;

- stringent legal restrictions on composition and structure of NPFs' assets, which made optimization of NPF portfolio impossible in conditions of exclusion of securities from listing;
- continued active closure of banks and loss of those funds' assets, which were placed in the liquidated bank institutions, as a result of practical absence of protection system for such investments;
- prolonged force majeure because of hostilities in eastern Ukraine and annexation of the Crimea, loss of funds' assets located in these areas;
- virtual absence of new issuers of equities and bonds, as well as of new financial instruments;

- very slow changes in the liberalization of currency regulation, lack of mechanisms for full implementation of the regulations "On CII" and "On NPF" concerning possibility of purchasing of foreign issuers' high quality securities for funds' portfolios;
- significant increase in households' spending on utilities and other essential needs, uncertainty about the future, that distracts citizens of Ukraine from investments for a period longer than 3-6 months;
- continuation, albeit in steadily weaker pace, of capital outflows from open-ended CII - along with a decrease in the number of such funds and their investors, including due to lack of investors' confidence in the institutions of the stock market.

*Table 15. Assets, registered in ATO area, in portfolios of CII and NPF in 2014-2016*

Assets/Date	31.12.2013	31.12.2014	31.12.2015	31.12.2016	2014 Change	2015 Change	2016 Change	2014-16 Change
CII, UAH	147 415 819	47 566 286	20 616 898	<b>14 706 056</b>	-67.7%	-56.7%	<b>-28.7%</b>	<b>-90.0%</b>
NPF, UAH	5 689 316	5 093 134	1 541 865	<b>518 675</b>	-10.5%	-69.7%	<b>-66.4%</b>	<b>-90.9%</b>
<b>Total CII and NPF, UAH</b>	<b>153 105 135</b>	<b>52 659 421</b>	<b>22 158 763</b>	<b>15 224 731</b>	-65.6%	-57.9%	<b>-31.3%</b>	<b>-90.1%</b>

**In 2016 the total value of assets, which were registered (located) in ATO area, in CII and NPF portfolios declined by another 31% (in NPF - in three times, the same as in 2015) - to UAH 15.2 mln. (including UAH 14.7 mln. -in CII). For 2014-16 they decreased by 90% (table 15).**

Since 2013, the number of issuers and issues of securities with a "residence permit" in the ATO area<sup>12</sup> in the portfolios of funds decreased by 3% and 23% respectively, although in 2014 - 2 issuers and 3 issues of securities of enterprises, which were caught up in the conflict zone, were added. As at December 31, 2016, they were 31 and 34, respectively - unchanged through 2016.

<sup>12</sup> ATO zone (Ukrainian: Зона АТО), or Anti-Terrorist Operation Zone (Ukrainian: Зона проведення антитерористичної операції), is a term used by media, publicity and government of Ukraine as well OSCE and other foreign institutions to identify Ukrainian territory of Donetsk and Luhansk regions (oblasts) under control of Russian military forces and pro-Russian separatists. A significant part of ATO zone is considered temporarily occupied territory of Ukraine.

**Moneys on the accounts and in financial instruments of banks, that were recognized as insolvent by the National Bank of Ukraine remained another problematic type of asset of CIIs and NPFs in 2016.**

As at 31.12.2016, there were 87 such banks (one year ago – 66), and **CII and NPF jointly owned assets in such banks totaling UAH 99.4 mln.**, including UAH 68.8 mln. on deposits, UAH 28.2 mln. on current accounts, UAH 2.2 mln. in bank metals and UAH 1.0 mln. in bank equities (Table 16).

More than 98% of these assets, which were accounted for in the portfolios of institutional investors at the end of 2016, belonged to CII, including 96% to venture funds, and in particular, 67% were on the bank deposits of these funds, while 28% on their current accounts.

For the year 2016, problematic bank assets **increased by 42 times** (from UAH 2.4 mln., according to the list of 66 insolvent banks at the end of 2015).

However, **in 87 banks, which were announced insolvent by NBU as at 31.12.2016, at**

**the beginning of this year (31.12.2015) CII and NPF owned significantly higher volume of assets – UAH 483.7 mln.** (including UAH 469.7 mln., or 97% - in CII, 94% of them - in venture funds, 74% of which - in deposit accounts of these CII). During the year, these assets **fell by almost 5 times** (-79%), in particular in NPF – by 88% (to UAH 1.7 mln.).

So, the same as in 2015, AMC continued to find ways to transfer funds of CII and NPF from potentially problematic banks to more reliable ones, as the total investments of CII and NPF in bank assets increased in 2016, in particular assets in deposits.

At the same time, reducing of the CII and NPF assets' value in troubled banks to some extent was due to write-offs of assets from the balances of these funds, according to the rules of their evaluation and accounting, as well as due to the closure of certain funds during the year.

As a whole, **assets of investment and pension funds in the banking system in 2016 increased by 6% - to almost UAH 5 bln.**

*Table 16. CII assets in insolvent banks, as of 31.12.2016<sup>13</sup>*

Funds / Types of Assets, UAH	Bank Deposits	Bank Accounts	Bank Bonds	Bank Equities	Bank Metals	Total
<b>As at 31.12.2016</b>						
Open-ended	0	0	0	0	0	0
Interval	0	2 007	0	0	0	2 007
Closed-end (venture excluded)	0	8 248	0	0	2 246 035	2 254 283
<b>ALL CII (venture excluded)</b>	<b>0</b>	<b>10 255</b>	<b>0</b>	<b>0</b>	<b>2 246 035</b>	<b>2 256 290</b>
Venture	66 232 374	28 161 604	0	1 049 525	0	95 443 503
<b>ALL CII (venture included)</b>	<b>66 232 374</b>	<b>28 171 859</b>	<b>0</b>	<b>1 049 525</b>	<b>2 246 035</b>	<b>97 699 793</b>
<b>NPF</b>	<b>1 723 362</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1 723 362</b>
<b>Total CII and NPF</b>	<b>67 955 736</b>	<b>28 171 859</b>	<b>0</b>	<b>1 049 525</b>	<b>2 246 035</b>	<b>99 423 155</b>
NB: A value of zero may mean a complete cancellation of the related assets.						
<b>As at 31.12.2015 - by the List of Insolvent Banks as at 31.12.2016</b>						
Open-ended	1 204 200	99	0	6 306	1 235 122	2 445 727
Interval	798 200	354 509	0	0	0	1 152 709
Closed-end (venture excluded)	949 696	8 863 874	95 507	0	2 246 035	12 155 112
<b>ALL CII (venture excluded)</b>	<b>2 952 096</b>	<b>9 218 482</b>	<b>95 507</b>	<b>6 306</b>	<b>3 481 157</b>	<b>15 753 548</b>
Venture	356 183 573	60 069 576	568 492	37 119 884	0	453 941 525
<b>ALL CII (venture included)</b>	<b>359 135 669</b>	<b>69 288 058</b>	<b>663 999</b>	<b>37 126 190</b>	<b>3 481 157</b>	<b>469 695 074</b>
<b>NPF</b>	<b>7 618 756</b>	<b>88 182</b>	<b>0</b>	<b>10 200</b>	<b>6 372 388</b>	<b>14 089 526</b>
<b>Total CII and NPF</b>	<b>366 754 425</b>	<b>69 376 240</b>	<b>663 999</b>	<b>37 136 390</b>	<b>9 853 545</b>	<b>483 784 600</b>
<b>As at 31.12.2015</b>						
Open-ended	0	0	0	6 306	0	6 306
Interval	0	648	0	0	0	648
Closed-end (venture excluded)	0	1 436	95 507	0	0	96 943
<b>ALL CII (venture excluded)</b>	<b>0</b>	<b>2 084</b>	<b>95 507</b>	<b>6 306</b>	<b>0</b>	<b>103 897</b>
Venture	1 299 605	787 686	0	166 617	0	2 253 909
<b>ALL CII (venture included)</b>	<b>1 299 605</b>	<b>789 770</b>	<b>95 507</b>	<b>172 924</b>	<b>0</b>	<b>2 357 806</b>
<b>NPF</b>	<b>2 710</b>	<b>0</b>	<b>0</b>	<b>28</b>	<b>0</b>	<b>2 738</b>
<b>Total CII and NPF</b>	<b>1 302 315</b>	<b>789 770</b>	<b>95 507</b>	<b>172 952</b>	<b>0</b>	<b>2 360 544</b>

<sup>13</sup> Based on the NBU data on banks in the process of reorganization and liquidation, as at 31.12.2016 – there were 87 banks, as at 31.12.2015 – 66 banks, as at 31.12.2014 - 33 banks: [http://bank.gov.ua/control/uk/publish/article?art\\_id=75535&cat\\_id=17823466](http://bank.gov.ua/control/uk/publish/article?art_id=75535&cat_id=17823466)



## **6. Resume and Next Year Prospects**

In 2016 the third consecutive year, reduction continued in the number of participants of asset management industry in Ukraine –AMC, as well as acting funds under management and their investors. Assets under management decreased this year too.

**Number of asset management companies** in 2016 dropped from 313 to 295.

**Number of collective investment institutions** – those, that have reached the norm for minimum amount of assets - declined, however the number of new registered CII for the year was more than of those that were closed - the first time in three years. During the year, venture UIF, as well as open-ended and closed-end diversified UIF were eliminated the most, while the number of active venture CIF continued to grow rapidly.

**Total assets under management and net assets of CII** in 2016 decreased for the first time. Such dynamics was defined by venture funds, although reductions took place also in sectors of other closed-end CII and interval funds. Meanwhile open-ended CII for the first time since 2010 had growth of assets and NAV. As at 31.12.2016 industry's assets amounted to more than UAH 230 bln., net assets - nearly UAH 188 bln.

**CII with public issue**, in particular open-ended and equity funds, in contrast to the previous year and against a background of changing the trend of stock indices' movement for upward one, mainly had positive results in 2016. The outflow of capital continued in open-ended CII for 5.5 years, but fell more in several times compared to the year 2015, and in the 3-rd quarter sector received net inflow for the first time since Q2 2011.

**Investors** for 2016 became less in all sectors of CII, although in the 4-th quarter number of foreign companies-investors increased in interval and closed-end CII with a private issue (other than venture ones), and also of foreign citizens – in closed-end CII with public issue.

The total investments of domestic companies - the largest investors of CII – in 2016 significantly reduced, while of Ukrainian citizens and foreign investors–legal entities - continued to grow. Venture funds were the most popular among the various categories of investors. Foreign enterprises also increased the amount of their assets in open-ended CII. Share in assets of all CII owned by non-residents (mostly legal entities), in 2016 increased to more than 21%.

**CIIs' rates of return** in 2016, after declining in 2015, increased. Average income of participants in open-ended CII for the year returned back into the positive zone

and was slightly behind the growth of the UX index and interest rates of bank deposits.

Closed-end CII also had positive results for the year, at that an average yield of funds with public issue was two times higher than of funds with private issue; this virtually repeated the trend of the last year.

Almost all funds among open-ended CII provided growth of the value of investors' contributions in 2016. At that 7 funds had rates of return higher than the UX index, 10 brought more income than deposits in euros, and two funds were more profitable than "golden" deposits.

Equity funds and bond funds showed this year the highest results among diversified CII with public issue. First ones were promoted by growth of the stock market in mid-year, as well as dynamics of individual participants in the 4th quarter.

**Assets of private pension funds under management** in 2016 increased further, while the number of funds and asset management companies that managed them, continued to decline.

Open NPF remained the largest segment by the number and total assets under management, although their weight decreased for the year amid faster growth of other sectors, in particular of corporate funds.

At the end of 2016 it was only one half of NPF assets, which were invested in securities (mainly in OVDP, and in professional NPF – also in corporate bonds), and a significant increase of assets in banks' deposits provided increasing of their share in the assets of NPF. The volume of assets in securities for the year increased only in the corporate NPF, however, their weight was reduced here to almost one half too. Professional NPF had the largest share of stock instruments in assets.

**Number of insurance companies with assets under management** in 2016 increased, while the number of AMC, which provided services for them during the year did not change. The aggregate value of IC assets under management increased dramatically in relative terms, although its volume remained small.

Overall, **results of year 2016** were mostly positive for investors of CII with public issue, in particular of open-ended and diversified funds, which were oriented on investments in equities, as stock indices mainly were moving upward during the year.

At the same time, unstable regulatory environment, in particular artificial narrowing of the stock market by administrative methods, prevented a deeper and more active growth of industry. Funds with private issue found new areas for investment activity and professional

market participants - AMC adapted to increasing demands of Ukrainian stock market's regulator, in particular to the reduction of exchanges' listing.

**Among the expected changes in the regulation of the market** - further changes in regulation, in particular, increase of prudential requirements for AMC, as well as for other professional market's participants and general preparation of amendments for legislation of CII, taking into account regulator's plans regarding transposition of European legislation's rules on investment funds and asset management for the implementation of the Association Agreement with the EU and implementation of a comprehensive program of development of financial sector of Ukraine until 2020.

Expectations, which were expressed earlier by market's participants regarding balanced, system development and gradual implementation of changes, remain relevant for the next year.

Expanding of the range of capital markets' liquid instruments, including derivatives, to ensure portfolio diversification and management of institutional investors' risk, together with a balanced and stimulating approach to the regulation of the stock market and development of its infrastructure and broad involvement of domestic investors in the first place, as it is expected by professional market's participants, will continue to be among the priority tasks, for execution of which they hope to work together with regulators.

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- [Daily Fund Data](#)
- [Analytical Statistics and Reviews of Publicly Offered Investment Funds: \*Weekly; Monthly\*](#)
- [Quarterly & Annual CII Industry Reviews](#)
- [Quarterly Statistics of NPF Under Management](#)
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