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**1. Stock Markets: Ukraine and the World**

Downward movement prevailed on the international stock markets in the 2-nd quarter of 2015: there was a correction in Europe - investors fixed profits after a rapid growth since the beginning of 2015; lateral trend held in the USA - potential of growth looked exhausted after 5 years of recovery, investors expected the signal of Fed's acceptance of the decision to raise the base rate.

Key European equities' indexes sank especially in June, when negotiations were intensified between the EU and the ECB and Greece concerning the debts of the latter one, that once again challenged its membership in the eurozone - and in the EU. This affected most of all indices of the Union's key economies - France and Germany (-4.8% and -8.5% respectively).

The government of Cyprus in April took away last restrictions on capital flows – on international payments – which were introduced in March 2013 in the framework of international financial assistance provided to Cyprus. However, the equity index there fell and was among the world's outsiders at the annual interval - together with the Russian RTS (-31% and -32%, respectively).

Equities in China were undisputed leaders of the quarter - and of the last 12 months. The Central Bank of the country lowered its base rates, that was regarded by investors as evidence of a slowdown of the country's economy and, consequently, activation of the People's Bank of China in easing its monetary policy to stimulate growth. China also continued to make careful steps for gradual opening of its financial markets for foreign investors, particularly in the area of investment funds. Chinese indices showed +14.1% (in Hong Kong - +5.4%).

Indices in Japan (+5.4%) and Russia (RTS +6.8% - with an increase in oil prices in April and for the quarter as a whole) also showed significant quarterly growth. However, their growth has slowed by half compared with the 1-st quarter of the year.

*Table 1. National Markets' Stock Indexes' Dynamics in Q2 2015\**

| Indexes                               | 31.03.2015 | 30.06.2015 | Q2 2015 | Annual change |
|---------------------------------------|------------|------------|---------|---------------|
| SHANGHAI SE COMPOSITE (China)         | 3 747.90   | 4 277.22   | 14.1%   | 110.0%        |
| RTS (Russia)                          | 880.42     | 939.93     | 6.8%    | -31.9%        |
| HANG SENG (Hong Kong)                 | 24 900.89  | 26 250.03  | 5.42%   | 13.0%         |
| NIKKEI 225 (Japan)                    | 19 206.99  | 20 235.73  | 5.36%   | 34.1%         |
| Ibovespa Sao Paulo SE Index (Brazil)  | 51 150.16  | 53 080.88  | 3.8%    | -0.1%         |
| MICEX (Russia)                        | 1 626.18   | 1 654.55   | 1.7%    | 12.0%         |
| BIST 100 National Index ( Turkey)     | 80 846.03  | 82 249.53  | 1.7%    | 4.8%          |
| S&P 500 (USA)                         | 2 067.89   | 2 063.11   | -0.2%   | 5.2%          |
| SENSEX (Mumbai SE) 30 ( India)        | 27 957.49  | 27 780.83  | -0.6%   | 10.7%         |
| FTSE/JSE Africa All-Share Index (PAR) | 52 181.95  | 51 806.95  | -0.7%   | 2.3%          |
| DJIA (USA)                            | 17 776.12  | 17 619.51  | -0.9%   | 4.6%          |
| UX (Ukraine)                          | 1 022.82   | 1 012.20   | -1.0%   | -17.5%        |
| Cyprus SE General Index (Cyprus)      | 79.88      | 78.00      | -2.4%   | -31.4%        |
| WSE WIG 20 (Poland)                   | 2 395.94   | 2 317.84   | -3.3%   | -3.4%         |
| FTSE 100 (Great Britain)              | 6 773.04   | 6 520.98   | -3.7%   | -3.5%         |
| CAC 40 (France)                       | 5 035.64   | 4 790.20   | -4.8%   | 8.0%          |
| DAX (Germany)                         | 11 966.17  | 10 944.97  | -8.5%   | 11.5%         |
| PFTS (Ukraine)                        | 413.84     | 350.84     | -15.2%  | -21.0%        |

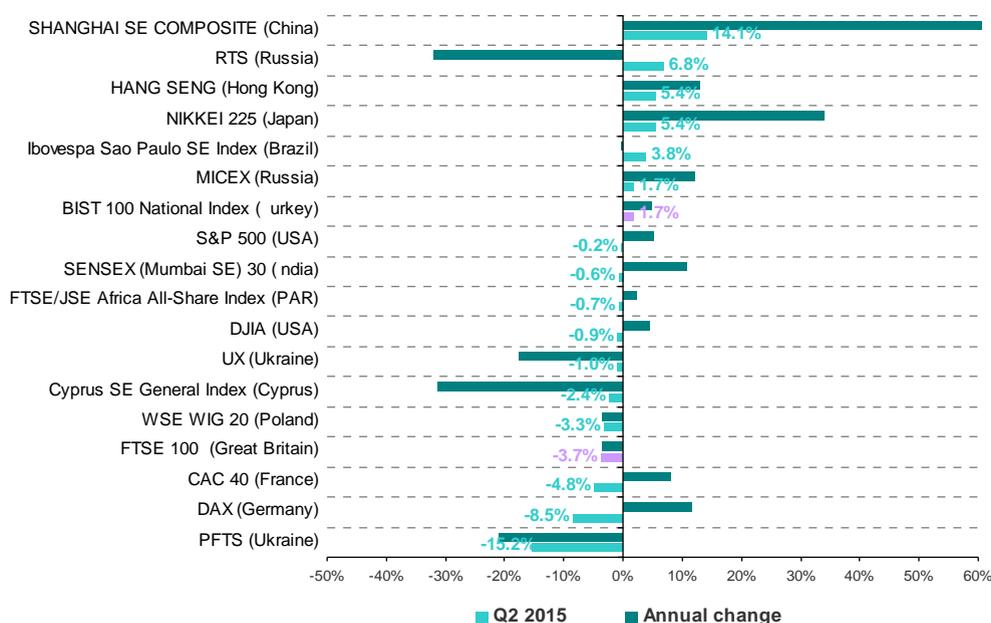


Chart 1. National Markets' Stock Indexes' Dynamics in Q2 2015\*

\* Based on the data of exchanges and Bloomberg Agency

For Ukraine, in terms of its financial position, the main events of the 2nd quarter took place around negotiations with major private creditors - owners of Eurobonds of the state on possible restructuring or partial write-off of significant debt, which mature period for payment occurs this year, as well as with creditors of one of the largest state bank. And if in the second case it was managed to reach a compromise, the negotiations were not ended in June, thus preserving the risk of technical default and fear of global investors concerning the creditworthiness of Ukraine and its investment climate. Nevertheless, financial support for Ukraine from the IMF, the EBRD and also from the EU, and the USA was announced.

In May, with the participation of international organizations, including the EBRD and the OECD, the institute of business ombudsman in Ukraine was introduced - an important step forward towards improving the investment climate as one of the key elements in the fight against corruption.

Also measures for popularization of Ukraine on the international investment arena were undertaken during the quarter, in particular, there was the International Conference with the participation of the EBRD, the World Bank and the IMF in Kyiv for supporting Ukraine.

In April-June a number of *legislative changes* also took place, in particular, the Verkhovna Rada adopted the Law "On Amendments to Certain Legislative Acts of Ukraine Regarding Protection of Investors' Rights," designed to raise the level of corporate culture in Joint-Stock Companies; the Law "On Licensing of Types of Economic Activity", that requires cancellation of licenses of professional participants, which are controlled by entities, that are registered in countries, that are carrying out aggression against the Ukraine, was, in particular, important for the stock market. Also, the National Bank of Ukraine simplified business regulations for Ukrainian organizations and citizens, which work and receive income on international markets; with participation of the Ministry of Economic Development and Trade, it carried out work to ensure the launching of the international system of electronic payments in Ukraine. Besides that, the President approved the strategy of judicial reform, which is one of the key reforms for the Ukraine.

At this time the *domestic regulators of financial markets* were preparing for serious changes: The National Committee of Financial Services expects curtailing of its work according to the plans of redistribution of functions of regulation of non-banking financial services between the National Bank and SSMNC, which has to be held next year; at the same time SSMNC, together with other regulators, had prepared and approved the draft of the Comprehensive Program of Development of Ukraine's Financial Market in the Years 2015-2020. The purpose of the Program is defined as "ensuring sustainable



development of the Ukrainian market, taking into account the standards of the European Union, and achieving the level of international requirements", but participants of financial markets are convinced of the need for a more precise formulation of regulators' plans, as well as for ensuring the enforcement of current legislation in conditions of its active changes, which lack systematics. The purpose can not justify the means of achieving it. At that, the regulator of the domestic stock market in the second quarter of 2015 was active in its immediate activities: there were started mass suspension of circulation of number of issues of securities and / or recognizing them as having fictitious nature, revocation of licenses of professional participants. Legislative process on issues concerning fighting with manipulation on the market, prudential supervision of its members and the like was also intensified.

**Ukrainian stock indices** in April-June had less volatile dynamics than in the previous quarter. Two key indicators dropped, at that, more sensitive to the situation on the stock market index of the Ukrainian Exchange (UX) fell by 1%, the same as in the first three months of the year, and for the year it showed -17.5%. Subsidence in May leveled growth in April and practically cemented UX on the same level until the end of the quarter: June identified itself with a lateral trend, which is natural for the summer. It was accompanied by a further decline in activity of stock trading.

*The volume of trading in securities on stock exchanges* in the 2-nd quarter, according to SSMNC data, decreased by 28% (for the year – by 25%), to UAH 79,066.76 mln. The total value of stock agreements with equities decreased by 37%, after -81% in the 1-st quarter (for the year – by 68%) and amounted to UAH 1,472.24 mln. Decline in trading volume in government bonds was also lasted the third consecutive quarter - by 30% compared with the previous quarter (after -22%) and by 21% for the year - to UAH 71,150.94 mln.. At that, the share of government bonds in the structure of trading in securities on stock exchanges of Ukraine decreased from 92.5% to 90.1%. At that, agreements with equities amounted to only 1.9% of the total volume of trades, with corporate bonds - 3.8% (after 2.1% and 2.5%, respectively). The volume of trades *in corporate bonds* increased for the first time since the 3rd quarter of 2014: in comparison with January-March 2015 – by 12% (after -72% in the 1st quarter), up to UAH 3,000.62 mln. However, its dynamics for the annual period remained downward: in comparison with the same period of 2014 it fell by 62%.

The growth was also observed in the sector of *derivatives* - the volume of trading in these instruments increased by 33% for the quarter (after -6%), but for the year decreased by 10% - to UAH 2,733.27 mln. But *the volume of trading in investment certificates* fell by almost half - by 46% for the quarter (after -40% in the previous three months), and by 17% per year. In April-June 2015 it amounted to UAH 555.52 mln.

At that time the role of one out of 8 operating in Ukraine stock exchanges continued to intensify: the share of SE "Perspectiva" in total trading on a regulated market increased in the 2nd quarter of 2015 from 83.6% to 85.5%. At that, the value of transactions on this stock exchange fell even more than in the 1-st quarter – by 26% (after -21%) and amounted to UAH 67,600 mln. The share of UX in the total volume of trading at the end of the quarter increased from 1.6% to 2.2%, and the PFTS - fell from 13.3% to 10.8%. Trading volume on both exchanges declined (to UAH 1,721 mln. and UAH 8,579 mln., respectively).

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

In the 2nd quarter of 2015 **the number of asset management companies (AMC)** continued to decrease. During the quarter, according to UAIB, 8 AMC left the market (including 7 in Kyiv and 1 in Kharkiv). Overall, as of 06.30.2015, there were **326 AMC** operating in Ukraine, taking into account newly created companies (Chart 2).

During January-March, according to UAIB, there were 17 newly registered CII (after 5 in the 1st quarter). However, the number of closed ones outweighed. As of 30.06.2015 there were 1,556 funds (-6, after -6 in the 1st quarter). Thus, the tendency of *reduction of the total number of registered CII* persisted for the past year and a half.



Reduction of number of AMC, the same as before, was relatively higher, that's why concentration on the CII asset management market continued to grow: one AMC managed on average 4.77 funds (after 4.74 as of 03.31.2015).

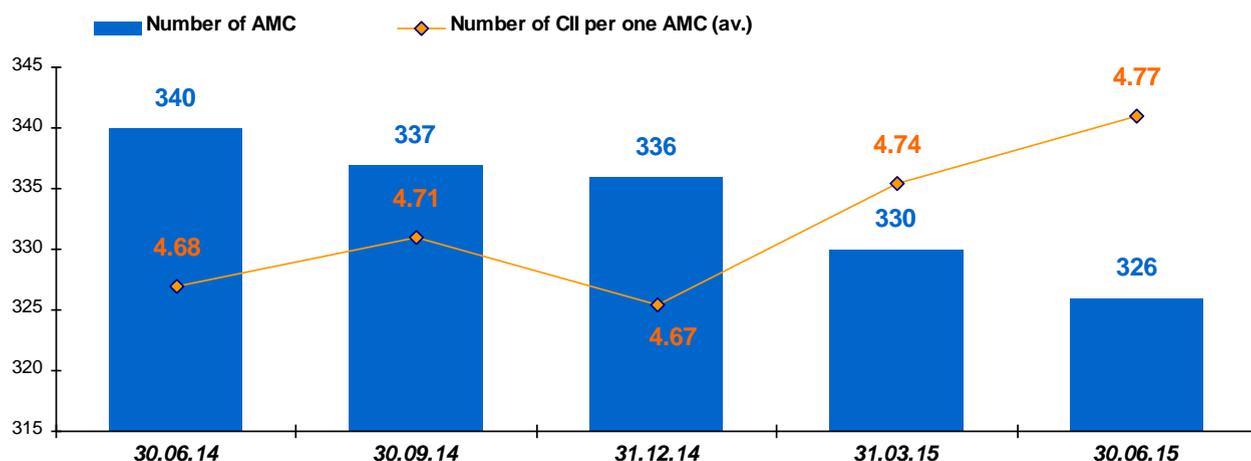


Chart 2. Dynamics of the Number of AMC and CII per One AMC in Q2 2014-2015

Reduction in the number of CII that reached compliance with the standard to minimal asset volume also continued, such funds became 6 less, namely, - 1,171 (Table. 2).

In the 2nd quarter, the sector of venture UIF suffered the greatest losses (-10), although there were here the largest number of newly recognized funds. Sector of closed-end diversified UIF narrowed relatively the most (-20%) - but they were only 2 funds, that left the market.

Open-ended and interval UIF, as well as closed-end non-diversified CIF, again became fewer (-1 and -2, respectively). And sector of venture CIF expanded the most (+6).

The number of specialized CII, which were created in accordance with the Law of Ukraine "On Collective Investment Institutions", that entered into force on January 1, 2014, according to UAIB, was not changed in this quarter.

Table 2. Dynamics of the Number of CII that Reached Compliance with the Standards in Q2 2014 - 2015, by the Types and Legal Forms of Funds

| Data /Period        | Total        | UIF*          |            |              |             |              |              |              | CIF*      |               |             |
|---------------------|--------------|---------------|------------|--------------|-------------|--------------|--------------|--------------|-----------|---------------|-------------|
|                     |              | O*            | Os*        | *            | s*          | CD*          | CNN*         | CV*          | *         | CNN*          | CV*         |
| 30.06.2014          | 1233         | 38            | -          | 34           | -           | 9            | 42           | 862          | 2         | 81            | 165         |
| 30.09.2014          | 1207         | 35            | -          | 31           | -           | 11           | 37           | 850          | 2         | 77            | 164         |
| 31.12.2014          | 1188         | 26            | 4          | 29           | 1           | 10           | 35           | 846          | 2         | 75            | 160         |
| 31.03.2015          | 1177         | 22            | 5          | 28           | 2           | 10           | 32           | 847          | 2         | 72            | 157         |
| 30.06.2015          | 1171         | 21            | 5          | 26           | 2           | 8            | 37           | 837          | 2         | 70            | 163         |
| Q2 2015<br>Change** | -6<br>-0.5%  | -1<br>-4.5%   | 0<br>0.0%  | -2<br>-7.1%  | 0<br>0.0%   | -2<br>-20.0% | 5<br>15.6%   | -10<br>-1.2% | 0<br>0.0% | -2<br>-2.8%   | 6<br>3.8%   |
| YTD 2015<br>Change  | -17<br>-1.4% | -5<br>-19.2%  | 1<br>25.0% | -3<br>-10.3% | 1<br>100.0% | -2<br>-20.0% | 2<br>5.7%    | -9<br>-1.1%  | 0<br>0.0% | -5<br>-6.7%   | 3<br>1.9%   |
| Annual<br>Change**  | -62<br>-5.0% | -17<br>-44.7% | -          | -8<br>-23.5% | -           | -1<br>-11.1% | -5<br>-11.9% | -25<br>-2.9% | 0<br>0.0% | -11<br>-13.6% | -2<br>-1.2% |

\* UIF - unit investment funds (CII), CIF - corporate investment funds (CII); O – open-ended diversified CII, Os - open-ended specialized CII (as of and prior to 30.09.2014 - open-ended-diversified CII), -interval diversified CII, Is -interval specialized CII (as of and prior to 30.09.2014 - interval diversified CII), C- closed-end diversified CII, CNN - closed end non-diversified non-venture CII, CV - closed-end venture CII.

\*\* For open-ended and interval funds - taking into account the specialized ones that previously acted as open-ended and interval diversified ones, respectively.

The share of venture CII in total number of "recognized" funds increased symbolically - from 85.3% up to 85.4%. At the same time, the weight of such UIF decreased - from 72.0% to 71.5% (837 funds) - as well as the number of venture capital funds in general (1,000).



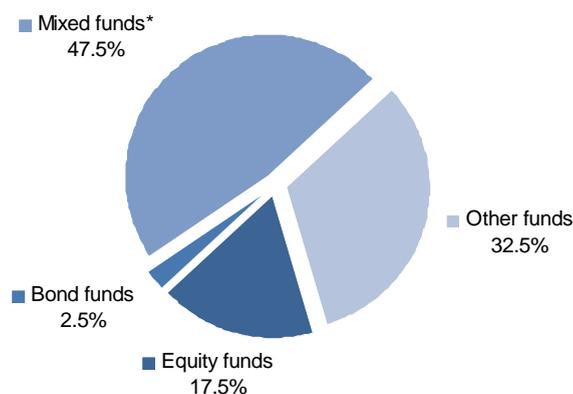
During the quarter, as per UAIB data, 6 open-ended UIF, 4 interval UIF, 6 closed-end non-diversified UIF and 11 of the same CIF, 36 venture UIF and 2 CIF were in the process of liquidation or just started it.

The number of funds which have not yet reached the normative of minimal volume standard of assets among all registered CII under AMC management in Q2 2015 declined for the past two years – from 45 to 44 (last year - 62, two years ago, at the peak - 120), and their share among all CII in management declined from 3.7% to 3.6%. Thus, the potential for industry growth through new funds continues to melt.

The number of CII with public placement in April-June was not changed and amounted to 40.

According to the asset structure-based classification<sup>1</sup>, equity funds became one more - 7. As of 30.06.2015 they included 2 open-ended, 3 interval and 2 closed-end diversified CII. So, one more closed-end fund appeared in the composition. Bond funds became one less again - and the only one (open-ended CII), funds of mixed investments (balanced) - one more – 19, namely: 7 open-ended and 12 interval CII. "Other" funds", ie those that did not meet the criteria for classes of equity, bond and mixed funds - 13 (after 14 in the 1-st quarter) - 9 open-ended, 3 interval and 1 closed-end CII.

At the end of June 2015 – the 8-th consecutive quarter - no one diversified CII met the criteria for money market funds (Chart 3).



\* Funds that hold equities, bonds and moneys in their portfolios.

Chart 3. Diversified Publicly Placed CII, by the Classes of Funds, as of 30.06.2015

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

In Kyiv and the metropolitan region in the 2nd quarter of 2015 the number of AMC decreased by 2 - to 232 companies. The number of registered in Kharkiv and Donetsk regions market participants also reduced – to 18 and 12, respectively. And in the Odessa region one new AMC appeared (in total 9). In other regions no quantitative changes have occurred - the largest number of AMC was still concentrated, in addition to Kyiv, in the east, south and west of Ukraine (Chart 4).

Kyiv's AMC covered almost 71.2% of the market (after 70.9% in Q1).

The number of CII under management in Kiev region in April-June 2015 continued to decline (-11 funds, after -14 in January-March), and its share in the regional distribution of CII by the number of CII - from 72.2% to 71.9% (Chart 5). Dnipropetrovsk held the second position with a considerable margin - 8.4% (after 8.0% in Q1). Among other leading by the number of funds regions the weights of Kharkiv and Donetsk

<sup>1</sup> See Rankings "Diversified Public CII – by Asset Classes" and Methodology for Ranking AMC and CII, Based on Their Performance Results on UAIB website: <http://www.uaib.com.ua>



regions also became smaller - up to 5.6% and 2.1%, respectively. The share of the remaining leaders grew, but the number of CII increased only in the Lviv region.

All other regions of Ukraine amounted to 6.6% (without taking into account Donetsk region, that left the top 5 - in contrast to Lviv region; in the 1st quarter - 6.4%). Consequently, the regional concentration of the number of CII under management slightly diminished during this period.



Chart 4. Regional Distribution of AMC Number as of 30.06.2015

In the regional distribution of CII assets under management in the 2nd quarter of 2015, in accordance with the increase of absolute volumes of assets, the shares of the following cities grew also: Dnipropetrovsk (from 6.1% to 7.2%), Kharkiv (from 4.2% to 4.8%) and Zaporizhzhia (from 1.7% to 2.8%). A significant drop of assets under management in Kiev and the region, the share of which declined from 84.2% to 81.5%, also contributed to it. Along with the decrease of assets under management, the weights of Donetsk and Lviv decreased also – Donetsk (from 1.4% to 1.2%) and Lviv (from 1.2% to 1.1%) (Chart 5).

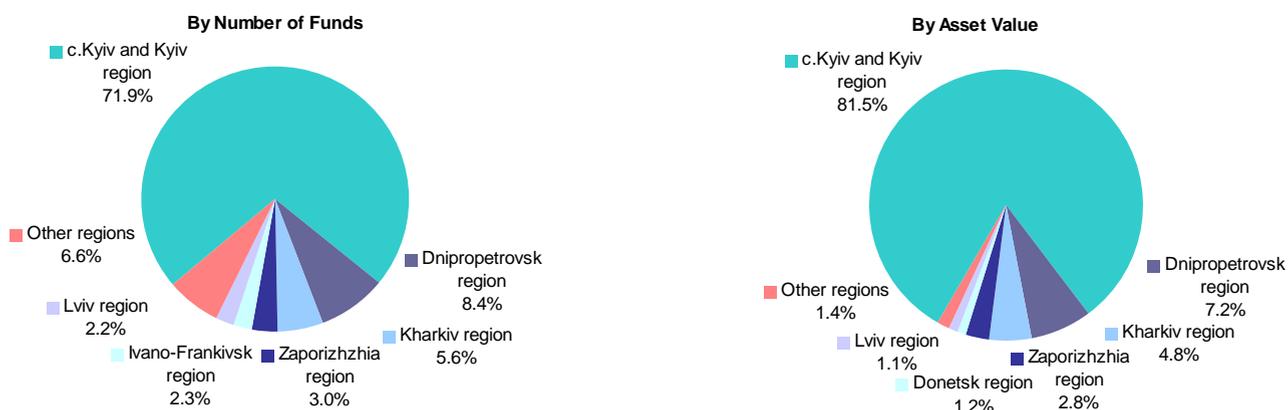


Chart 5. Regional Distribution of CII by the Number of CII and the Value of Their Assets under Management, as of 30.06.2015



#### 4. Assets and Net Asset Value of CII

In the 2nd quarter of 2015 CII assets' growth continued, though slowed nearly doubled compared to the 1st quarter. Thus, the increase in total assets amounted to UAH 3,842.96 mln. (+1.8%). Venture CII provided more than 83% of increase in industry. Since the beginning of the year, the industry grew by UAH 10,714.09 mln. (+5.2%).

As of 06.30.2015, **the total assets of CII that reached compliance with the standards**, amounted to UAH 217,072.11 mln., including venture CII – UAH 204,853.38 mln.

This quarter the sector of *open-ended CII* failed to confirm the change of trend and repeat the growth that was observed in January-March - the total assets of these funds decreased by UAH 1.06 mln. (-1.7%, after +4.9% in Q1).

In the sector of interval funds assets' reduction increased dramatically (-UAH 14.46 mln., -13.1%, after -1.6%), which, in particular, was due to the withdrawal from the market of two CII of this type.

*Closed-end CII*, at a constant number of recognized funds that provided reports in the second quarter, showed a steady growth of assets (+UAH 656.51 mln., +5.8%) and reached UAH 12,218.72 mln. (Chart 6). In the dynamics of the total assets of non-venture CII, this increase compensated for the reduction of open-ended and interval funds - after all, all CII, except venture ones, increased by UAH 641 mln. (+5.5%). This again was relatively greater than the growth of venture CII, while the latter slowed down to +1.6%.

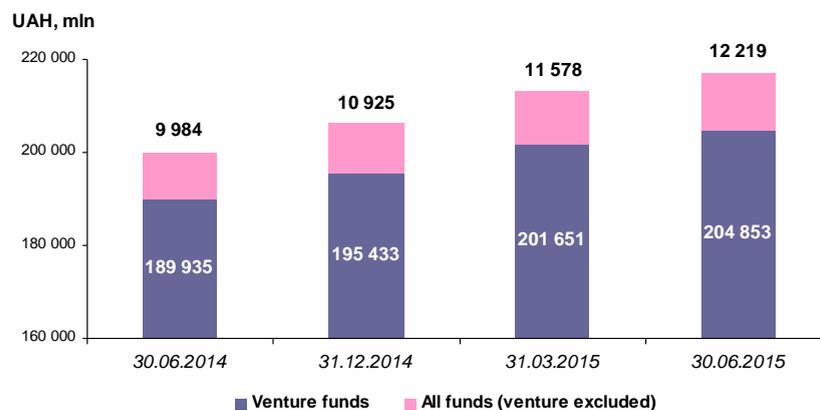


Chart. 6. Asset Value Dynamics in Q2 2014-2015

**The net assets of CII** increased in the 2nd quarter of 2015 by UAH 3,337.20 mln. (+1.8%, after +2.8% in the 1st quarter). The half-yearly NAV growth was UAH 8,360.70 mln. (+4.6%), and the annual one – UAH 13,122.46 mln. (+7.5%), so it slowed significantly during this quarter (at the end of the 1<sup>st</sup> quarter it amounted to UAH 19,377.25 mln., +11.7%). As of 30.06.2015, all funds owned UAH 188,765.43 mln.

Traditional key contribution of *venture capital funds* in the growth of industry in terms of NAV in the 2nd quarter rose to 96% - their net assets for the quarter increased by UAH 3,199.44 mln. (+1.83%) and reached UAH 177,602.59 mln. At the same time, the weight of the sector in the annual growth of the net assets of all CII at the end of June fell to 84%.

*Open-ended CII* in April-June lost UAH 1.10 mln. (-1.7%, after +4.9% in Q1), and for the year – UAH 23.92 mln. (-27.8%) (Table 3). However, the dynamics remained positive from the beginning of 2015 - +UAH 1.83 mln. (+3.1%) - thanks to the achievements of the 1st quarter.

Lateral movement in the stock market with a moderate downward result in the 2nd quarter slightly affected the amount of net assets of the sector, as well as the number of acting funds, which has not changed. The main factor of NAV's change here was an outflow of investors' capital. Dynamics of the portfolios' value even somewhat offset it.

*Interval CII* at that time returned to active reduction: -UAH 13.39 mln. (-12.5%, after -0.6% in the 1st quarter).



Table 3. Dynamics of the CII' NAV, by the Types of Funds in Q2 2014-2015 , UAH mln.

| Funds                         | 30.06.2014       | 31.12.2014       | 31.03.2015       | 30.06.2015       | Q1 2015 change | YTD 2015 change | Annual change |
|-------------------------------|------------------|------------------|------------------|------------------|----------------|-----------------|---------------|
| Open-ended                    | 85.9             | 60.2             | 63.1             | 62.0             | -1.7%          | 3.0%            | -27.8%        |
| Interval                      | 122.3            | 107.8            | 107.2            | 93.8             | -12.5%         | -13.0%          | -23.3%        |
| Closed-end (venture excluded) | 8 824.4          | 10 198.7         | 10 854.8         | 11 007.0         | 1.4%           | 7.9%            | 24.7%         |
| All funds (venture excluded)  | 9 032.6          | 10 366.7         | 11 025.1         | 11 162.8         | 1.2%           | 7.7%            | 23.6%         |
| Venture funds                 | 166 610.4        | 170 038.1        | 174 403.1        | 177 602.6        | 1.8%           | 4.4%            | 6.6%          |
| <b>All funds</b>              | <b>175 643.0</b> | <b>180 404.7</b> | <b>185 428.2</b> | <b>188 765.4</b> | <b>1.8%</b>    | <b>4.6%</b>     | <b>7.5%</b>   |

Increase of net assets of *closed-end non-venture funds*, contrary to the previous quarter, was less than increase of total assets of the sector, at that it was smaller more than 4 times - +UAH 152.24 mln. (+1.4%), ie increase of commitments dominated in increase of total assets.

However, closed-end CII maintained their role of mover of non-venture CII NAV's growth - increase of the latter was lower and amounted to UAH 137.76 mln.(+1.3%) for the 2nd quarter.

It supported the tendency of increasing the proportion of closed-end funds in total net assets of non-venture CII - as opposed to the weight of interval and open-ended funds (Chart 7). The share of the first ones reached to 98.6%, the latter ones - closed to 0.5%.

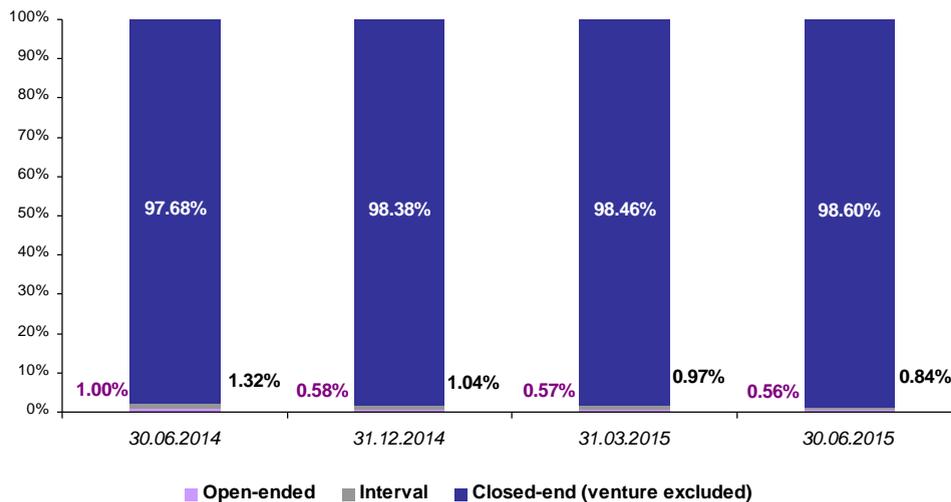


Chart 7. Dynamics of Non-Venture CII NAV Breakdown by the Types of Funds in Q2 2014-2015

Venture capital funds in the 2nd quarter of 2015 retained 94.1% of all CIIs' NAV, as their increase was slightly ahead of the NAV of non-venture funds (Chart 8).

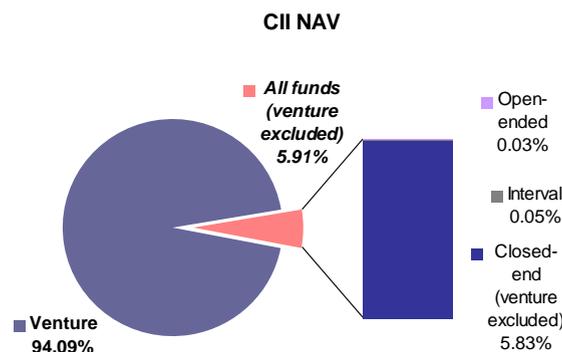


Chart 8. Distribution of CII NAV by the Types of Funds as of 30.06.2015



### 5. Net Capital Flow in Open-Ended CII

The outflow of capital from open-ended CII in April-June 2015 weakened and was the result of investors' exit not from one fund, as before, but from several CII, each of which has suffered much smaller losses in this period.

In April the outflow was negligible. May brought the second in 2015 - and the third for the year - net inflow (+UAH 0.84 mln.), although it was mostly provided by one fund, which suffered even greater exodus next month. June's net outflow was the largest since the beginning of the year (-UAH 1.63 mln.), but less than a year ago (-UAH 2.13 mln.) (Chart 9, table 4).

Overall, during the 2nd quarter the number of open-ended funds, which received a net inflow each month, amounted from 2 to 7, and those, which had a net outflow - from 7 to 10.

The total volume of additional capital attractions by 7 funds in May totaled UAH 1.16 mln. - twice as much, as 5 open-ended CII managed to get in March.

At the same time, 10 funds, that had net outflows in June, together lost UAH 1.64 mln.

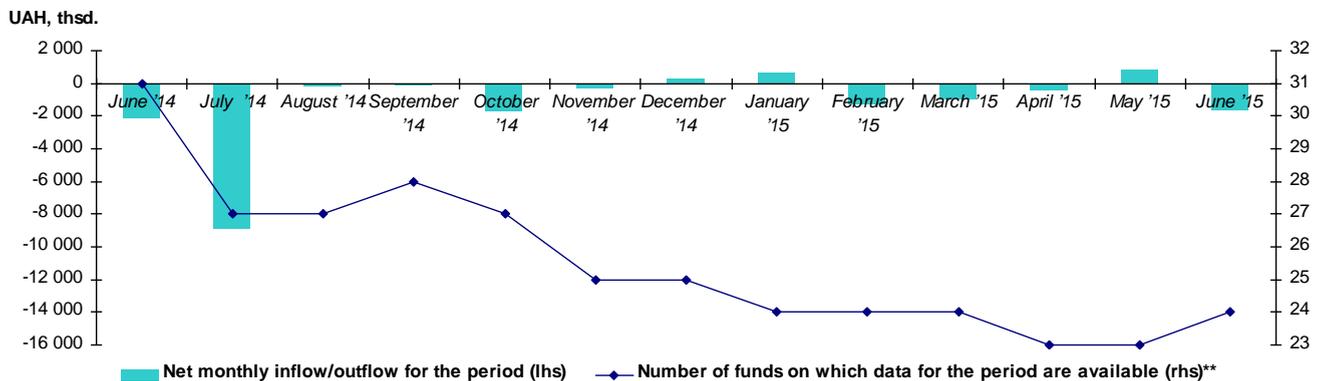


Chart 9. Monthly Net Inflow/Outflow of Capital in Open-Ended CII in June 2014-2015 \*

\* Based on daily data (in January-March 2015 – also on data at the end of month (quarter))

Table 4. Monthly Net Inflow/Outflow of Capital in Open-Ended CII in June 2014-2015\*

| Month            | Net monthly inflow/outflow for the period | Number of funds on which data for the period are available** |
|------------------|---|--|
| June '14         | -2 130                                    | 31   |
| July '14         | -8 861                                    | 27   |
| August '14       | -165                                      | 27   |
| September '14    | -144                                      | 28   |
| October '14      | -1 753                                    | 27   |
| November '14     | -322                                      | 25   |
| December '14     | 329                                       | 25   |
| January '15      | 680                                       | 24   |
| February '15     | -1 271                                    | 24   |
| March '15        | -978                                      | 24   |
| April '15        | -413                                      | 23   |
| May '15          | 840                                       | 23   |
| June '15         | -1 626                                    | 24   |
| <b>12 months</b> | <b>-13 684</b>                            | <b>26</b>  |

\* Based on daily data (in January-March 2015 – also on data at the end of month (quarter))

\*\* For 12 months - an average.

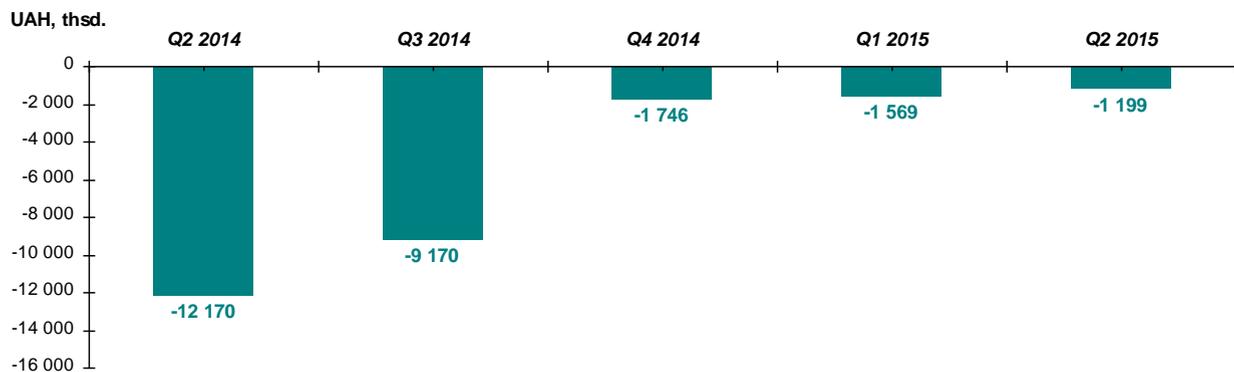


Chart 10. Net Inflow/Outflow of Capital in Open-Ended CII in Q2 2014-2015

**The total net outflow** from open-ended CII in the 2<sup>nd</sup> quarter amounted to **–UAH 1.20 mln.**, so it decreased by 24% compared to the 1st quarter of this year and in 10 times – compared with the 1st quarter of 2014 (Chart 10).

Thus, the *negative capital flow in open-ended CII lasted the 16th consecutive quarter* during which the aggregate net outflow amounted to UAH 196.63 mln. (without taking into account changes in the value of money over time). For the year, as of 30.06.2015, it was extracted UAH 13.68 mln. from the open-ended CII, or 45% less than in the previous quarter (then an indicator decreased by 34% - outflow continues to decrease).

In terms of a limited impact of stock assets prices' changes on NAV of open-ended CII, NAV's change in the sector was determined exactly by depositors' net capital outflow: it was larger than the fall of net assets. Thus, the net flow of capital went back to the usual for the last 4 years role in the dynamics of open-ended funds.

## **6. Investors of CII**

The leading role of **Ukrainian legal entities** as the largest investors of CII in Q2 2015 did not experience significant changes: their share in terms of NAV, the same as in the 1st quarter, slightly decreased - from 76.0% to 75.6%. Yet the amount of assets which belong to these investors in all funds increased for the quarter to UAH 1,647.32 mln. (after UAH 3,477.83 mln. in Q1 2014). At that in April-June assets' growth of these investors in all funds was as a whole lower than the growth in *venture CII* (+UAH 2,147.39 mln.) - their investments in the rest sectors of CII decreased.

Reduction of legal persons-residents' assets *in closed-end non-venture funds* in the 2nd quarter nearly leveled the increase in the 1st quarter: -UAH 497.10 mln. after +UAH 588.98 mln. They decreased also in open-ended and interval funds.

Due to the relatively greater growth of other categories of investors in *venture CII* in this quarter, the weight of domestic institutional investors in the NAV of these funds, which still remained to be the largest one, symbolically fell again - with almost 77% to 76.8%. In open-ended CII their share decreased from 12.2% to 12.1%, and in closed-end CII - from 62.0% to 56.6%. In interval ICI their weight increased from 52.7% to 57.2%, despite the significant reduction in assets, which were held by these investors, - due to the greater large-scale exit of other categories of investors (Chart 11).<sup>2</sup>

<sup>2</sup> Excluding CII bearer securities in circulation

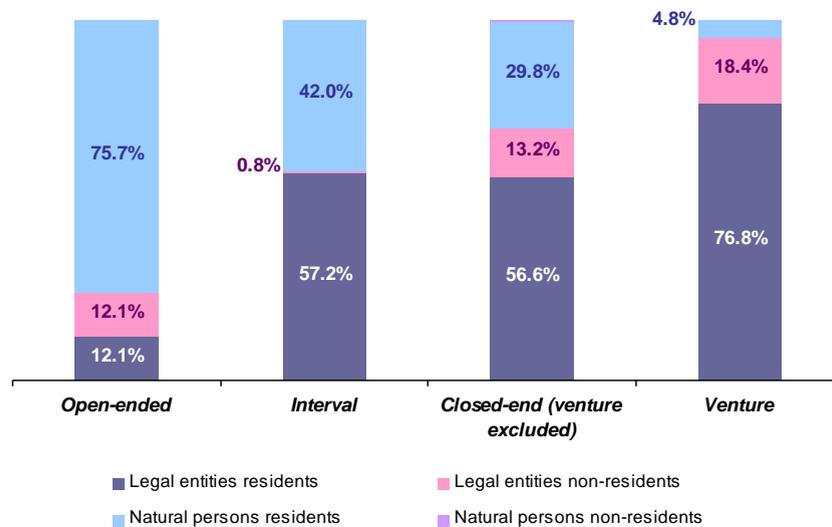


Chart 11. CII NAV Breakdown by the Categories of Investors as of 30.06.2015, Share in NAV

**Natural persons-residents** continued to increase their investments in CII, especially in closed-end non-venture funds and also in venture ones: the amount of their assets in these funds increased for the quarter, respectively, by UAH 287.39 mln. and UAH 183.87 mln., and in all CII as a whole - to UAH 460.08 mln. (after +UAH 711.57 mln. in the 1st quarter).

In open-ended CII assets of citizens of Ukraine decreased slightly – by UAH 0.64 mln. (after +UAH 3.14 mln. in the 1st quarter), although it was the largest reduction compared to other investors. However, the share of Ukrainian citizens in the sector's NAV in Q2 continued to grow - from 75.4% to 75.7% - because of the relatively faster reduction of legal entities' assets in the sector.

In all CII as a whole, the weight of citizens of Ukraine also increased - from 6.2% to 6.3%.

Capital inflows **from foreign investors** to open-ended CII continued the third consecutive quarter: this time assets of non-residents increased by UAH 1,227.39 mln. (after +UAH 832.41 mln. in the 1st quarter), including legal entities – by UAH 1,216.41 mln. The amount of assets in venture funds increased by UAH 865.75 mln., including physical persons - by UAH 10.69 mln. In other closed-end CII presence of these investors, as opposed to the 1st quarter, increased - by UAH 361.67 mln. (then it was -UAH 107.67 mln.).

The sharp rise of foreign citizens' assets led to an increase of the share of non-residents in venture funds from nearly 18.3% to over 18.4%, and in all CII as a whole - from 17.8% to 18.1%.

All investors-residents, as of 30.06.2015, owned together in all CII UAH 153,195 mln., including UAH 143,539 in venture funds; non-residents – UAH 33,933 mln., including UAH 32,426 mln. in venture funds.

**Number of investors** in the 2nd quarter decreased in all sectors of CII and generally it was much faster than in the 1st quarter – by 67% (after -4.5%), but such sharp change was due to a decline the number of investors in interval funds by 68%, where traditionally there was a large number of small individual investors (one fund with the largest number of such investors was not get into calculations).

Table 5. Investors of CII by Categories as of 30.06.2015, Number and Share of the Total Number

| Funds                               | Legal entities |              |               |              | Natural persons |               |               |              |
|-------------------------------------|----------------|--------------|---------------|--------------|-----------------|---------------|---------------|--------------|
|                                     | residents      |              | non-residents |              | residents       |               | non-residents |              |
| Open-ended                          | 24             | 0.86%        | 5             | 0.18%        | 2 760           | 98.89%        | 2             | 0.07%        |
| Interval                            | 45             | 0.02%        | 1             | 0.00%        | 250 354         | 99.97%        | 20            | 0.01%        |
| Closed-end (venture excluded)       | 509            | 9.99%        | 29            | 0.57%        | 4 547           | 89.24%        | 10            | 0.20%        |
| <b>All funds (venture excluded)</b> | <b>578</b>     | <b>0.22%</b> | <b>35</b>     | <b>0.01%</b> | <b>257 661</b>  | <b>99.75%</b> | <b>32</b>     | <b>0.01%</b> |
| Venture                             | 4 615          | 82.56%       | 532           | 9.52%        | 433             | 7.75%         | 10            | 0.18%        |
| <b>All funds</b>                    | <b>5 193</b>   | <b>1.97%</b> | <b>567</b>    | <b>0.21%</b> | <b>258 094</b>  | <b>97.80%</b> | <b>42</b>     | <b>0.02%</b> |



At the same time, *in the sector of open-ended CII* in the 2nd quarter the number of investors decreased by 1.1% (-31 investor-citizen of Ukraine). The number of participants *in closed-end funds* fell by only 0.4% (-22 retail depositors-residents), at that foreign citizens and domestic institutional investors became symbolically more.

*In venture CII* the number of participants as a whole decreased also - by 5.4%, or by 317, including Ukrainian companies – by 237 (after increase by 100 in the 1st quarter), citizens - by 65 (after +85).

Thus, in the 2nd quarter of 2015 only closed-end CII as a whole were able to attract new investors, but their total number decreased in this sector too.

## **7. Asset Structure of CII**

The main trends of the dynamics and structure of aggregated portfolios of different CII sectors by the types of funds in terms of **financial instruments and other assets** in the 2-nd quarter of 2015 were as following: reducing the share of CII **assets in securities in general, and in equities**, in particular, in all sectors of CII, except the open-ended ones, and corporate bonds' shares - in all sectors besides venture ones; increase of the "other"<sup>3</sup> assets' share – in all but the interval funds; reduction **of moneys'** share in assets of open-ended and venture CII; weights gain by **OVDP** in open-ended and interval CII (Table 6).

Table 6. Changes in the Structure of Aggregate Portfolios of CII by the Types of Funds in Q2 2015

| Asset Type / CII Type/<br>Change for Quarter | Open-ended |        | Interval |       | Closed-end (venture<br>excluded) |        | All funds (venture<br>excluded) |        | Venture |        |
|--|------------|--------|----------|-------|----------------------------------|--------|---------------------------------|--------|---------|--------|
|  | p.p.       | %      | p.p.     | %     | p.p.                             | %      | p.p.                            | %      | p.p.    | %      |
| <b>Other assets</b>                          | 1.57       | 15.6%  | -0.56    | -4.4% | 1.77                             | 4.2%   | 1.81                            | 4.4%   | 1.72    | 2.4%   |
| Real estate                                  | -          | -      | -        | -     | 0.17                             | 91.8%  | 0.17                            | 92.2%  | 0.26    | 10.3%  |
| <b>Moneys and bank<br/>deposits</b>          | -2.90      | -12.5% | 1.06     | 9.6%  | 1.53                             | 16.7%  | 1.50                            | 16.2%  | -0.004  | -0.3%  |
| Bank Metals                                  | -0.26      | -11.2% | 0.04     | 3.3%  | -0.03                            | -78.0% | -0.03                           | -54.0% | -0.01   | -70.5% |
| <b>OVDP</b>                                  | 2.45       | 12.4%  | 0.21     | 16.2% | -0.90                            | -45.0% | -0.88                           | -42.1% | -0.03   | -38.1% |
| Municipal bonds                              | -          | -      | -        | -     | -                                | -      | -                               | -      | -       | -      |
| <b>Equities</b>                              | 0.42       | 1.0%   | -1.03    | -1.5% | -2.34                            | -5.7%  | -2.37                           | -5.7%  | -1.24   | -9.3%  |
| <b>Corporate bonds</b>                       | -0.19      | -6.6%  | 0.25     | 8.7%  | -0.92                            | -25.0% | -0.90                           | -24.6% | -0.18   | -4.0%  |
| <b>Promissory notes</b>                      | -          | -      | -        | -     | 0.72                             | 38.1%  | 0.71                            | 38.4%  | -0.52   | -6.6%  |
| Mortgage                                     | -          | -      | -        | -     | -                                | -      | -                               | -      | -0.001  | -11.9% |
| Other securities                             | -          | -      | 0.02     | 15.0% | -                                | -      | -0.0001                         | -5.37% | 0.01    | 28.6%  |
| <b>Securities</b>                            | 0.02       | 2.5%   | -0.01    | -0.7% | -0.03                            | -7.0%  | -0.03                           | -7.0%  | -0.02   | -7.6%  |

*In open-end funds* the most liquid assets declined significantly: the share of moneys decreased to 20.3%, while reducing the amount of these assets by UAH 2.05 mln. to UAH 12.62 mln. (after +UAH 0.74 mln. in the 1st quarter). Share of equities, which remained the biggest asset there, increased to 41.3%, while the value of those assets - declined by UAH 0.17 mln. (to UAH 25.71 mln.). Investments of these CII increased in OVDP and "other" assets - by UAH 1.32 mln. to UAH 13.78 mln., and by UAH 0.87 mln. to UAH 7.24 mln., respectively. In the sector's structure of assets they occupied, respectively, 22.1% and 11.6%.

*In interval CII* proportion of equities reduced to 69.7% and the amount of assets in them - by UAH 11.21 mln., to UAH 67.04 mln. "Other" assets also became noticeably less – by UAH 2.38 mln. (weight in the sector fell to 12.2%) and moneys – by UAH 0.57 mln. (although their share increased to 12.1%).

<sup>3</sup> "Other" assets include receivables, corporate rights in other forms than securities, as well as loans to the companies where a stake in the capital belongs to the CII (for venture funds).



In **closed-end non-venture CII** amount of funds in equities in the second quarter decreased by UAH 4.74 mln. to UAH 4,672.71 mln., and their share dropped to 39.0%. Instead, the following funds increased their volume - and share - "other" assets (+UAH 490.73 mln.), moneys (+UAH 245.25 mln.) and promissory notes (+UAH 98.55 mln.). Share of the "other" assets remained the biggest one - 43.5%.

As of 06.30.2015, securities dominated, the same as before, in *the asset structure of open-ended, interval and closed-end non-venture CII* (66.1%, 74.5% and 45.4%, respectively) (Chart 12). "Other" assets increased the lead *in venture funds* - more than 72%, while the equities held the largest share among the securities in the assets of these funds - 12.1% (Chart 13).

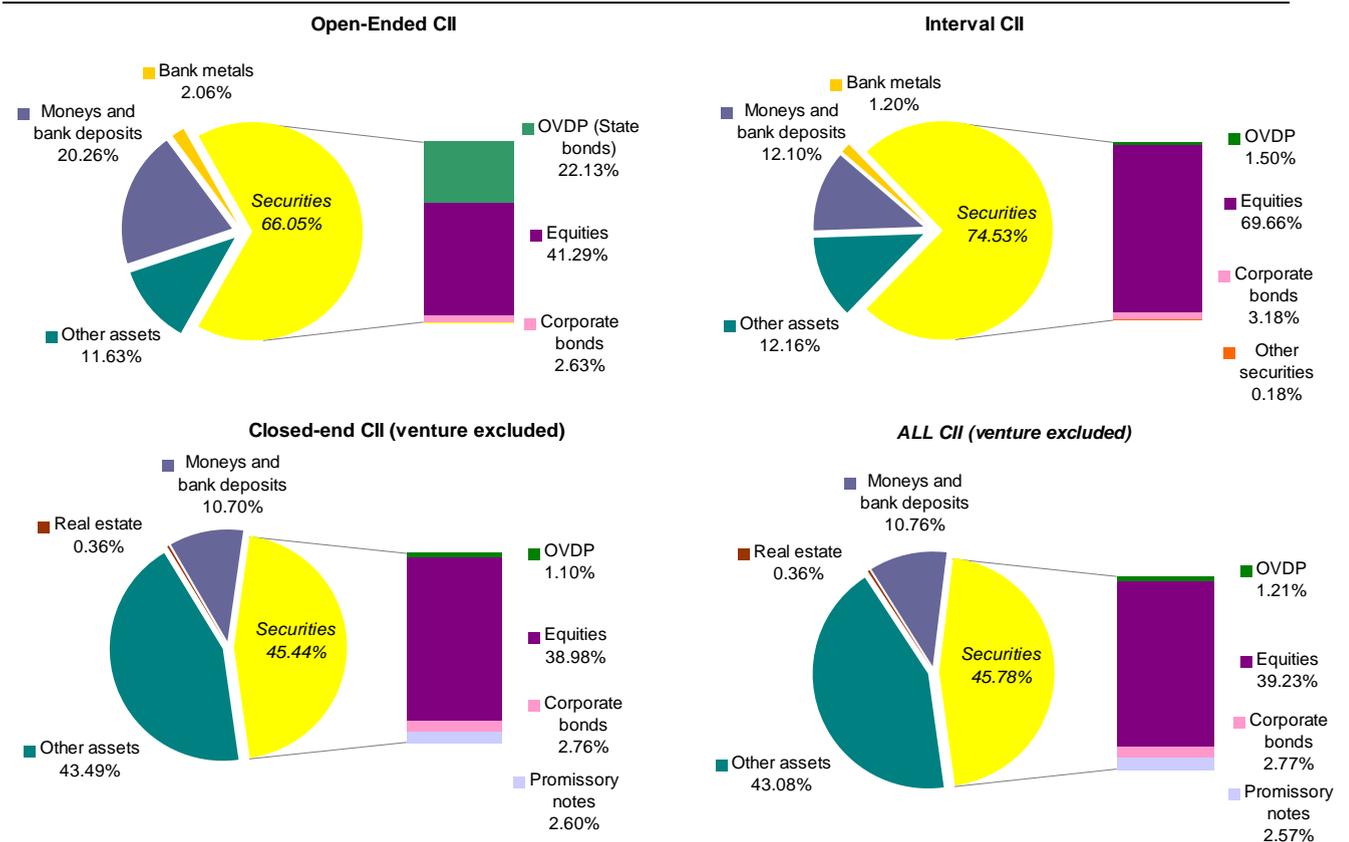


Chart 12. CII Assets Structure, Venture Funds Excluded, by the Types of Funds as of 30.06.2015

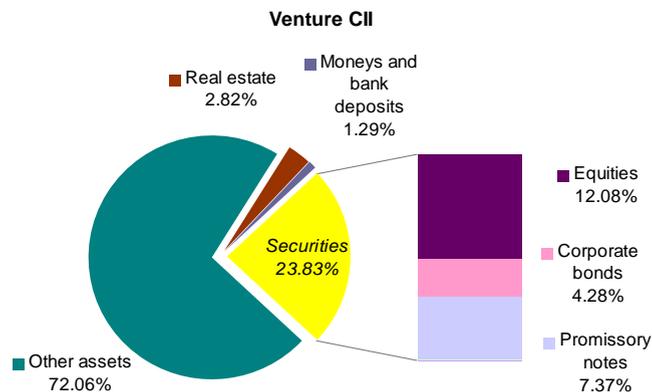


Chart 13. Assets' Structure of Venture CII, as of 30.06.2015



**Securities portfolio of all CII** in the 2nd quarter decreased by UAH 3,304.76 mln. (after -UAH 1,467.28 mln. in the 1-st quarter) and as of 30.06.2015 its value was **UAH 54,364.83 mln.**

In consolidated portfolio of all CII in the 2<sup>nd</sup> quarter of 2015 **equities** remained **the largest by the aggregate value of investments** among the classes of securities, although the value of these investments decreased ten times more than the other ones – by UAH 2,121.45 mln. (after –UAH 2,785.42 mln. in the 1st quarter). This happened again almost due to venture CII, where equities became less by UAH 2,105.32 mln. Finally, as of the end of June, assets of all CII in equities amounted to UAH 29,506.34 mln., and they accounted for 54.3% of their stock portfolio as a whole (at the end of March - 54.8%, at the beginning of the year - 58.2% (Table 7.)

*Promissory notes, corporate bonds, government bonds and mortgages* retained their positions in the consolidated securities' portfolio of all CII, at that, despite the drop in the total value, the weight of the first two grew - up to 28.4% and 16.7%, respectively.

Volume of derivatives increased in the 2nd quarter almost by one-third, but they still accounted for a small share in the assets of CII (0.14%).

Table 7. Securities Portfolio of CII, by the Types of Instruments, as of 30.06.2015

| Security Type      | Aggregate value of the security in CII portfolios, UAH | Share in the aggregate portfolio of securities in CII |
|--------------------|--|---|
| Equities           | 29 506 341 802   | 54.27%  |
| Promissory notes   | 15 413 387 427   | 28.35%  |
| Corporate bonds    | 9 095 934 880  | 16.73%  |
| State bonds (OVDP) | 262 507 529  | 0.48%   |
| Mortgage           | 12 944 697   | 0.02%   |
| Derivatives        | 73 709 423   | 0.14%   |
| <b>Total</b>       | <b>54 364 825 758</b>                                  | <b>100.00%</b>  |

**Consolidated securities portfolio of open-ended, interval and closed-end non-venture CII** in the 2nd quarter of 2015 also continued to decline, although at a slower pace than in the first quarter. Total assets in securities here decreased in April-June by UAH 97.61 mln. (after –UAH 133.71 mln. in January-March), up to **UAH 5,560.43 mln.**

This time, the most reduction was experienced by *OVDP* (-UAH 93.47 mln.), and also by corporate bonds (-UAH 85.87 mln.), while *promissory notes* partially regained the losses of the 1st quarter (+UAH 98.55 mln., after –UAH 140.97 mln.).

*Equities* remained to be unchanged and unchallenged leader in the portfolio of non-venture CII, their total value decreased here by UAH 16.13 mln. to UAH 4,765.46 mln., and their share increased from 84.5% to 85.7% (table 8).

Table 8. Securities Portfolio of CII (Venture Excluded), by the Types of Instruments, as of 30.06.2015

| Security Type      | Aggregate value of the security in CII portfolios, UAH | Share in the aggregate portfolio of securities in CII |
|--------------------|--|---|
| Equities           | 4 765 464 146  | 85.70%  |
| Corporate bonds    | 335 915 886  | 6.04%   |
| Promissory notes   | 311 622 480  | 5.60%   |
| State bonds (OVDP) | 147 424 237  | 2.65%   |
| <b>Total</b>       | <b>5 560 426 749</b>                                   | <b>100.00%</b>  |

*Equities* dominated also in the consolidated securities portfolio **of diversified CII**, in which, as of 06.30.2015, UAH 863.53 mln. were detained, or 86.3% of this portfolio. The total value of the latter amounted to **UAH 1,000.77 mln.** (table 9).



In the 2nd quarter investments of these funds in equities fell by UAH 14.28 mln. (after +UAH 15.27 mln. in the 1st quarter), whereas in all securities – by UAH 14.09 mln. (after +UAH 14.57 mln.).

Assets in OVDP increased here almost the same, as in the 1st quarter (+UAH 1.24 mln.) - up to UAH 15.18 mln., or 1.5% of the consolidated portfolio.

The total value of promissory notes also increased slightly in these CII, and their share reached 11.7% of their securities' portfolio.

During the year assets in equities increased by UAH 197.88 mln. (their share in the stock portfolio of *diversified CII* a year ago was 85.2%), and assets in all securities – by UAH 144.53 mln.

Table 9. Securities Portfolio of Diversified CII by the Types of Instruments, as of 30.06.2015

| Security Type      | Aggregate value of the security in CII portfolios, UAH | Share in the aggregate portfolio of securities in CII |
|--------------------|--|---|
| Equities           | 863 527 974  | 86.29%  |
| Promissory notes   | 116 656 846  | 11.66%  |
| State bonds (OVDP) | 15 180 215   | 1.52%   |
| Corporate bonds    | 5 405 068  | 0.54%   |
| <b>Total</b>       | <b>1 000 770 104</b>                                   | <b>100.00%</b>  |

## 8. Rates of Return of CII and other Investment Instruments

Despite moderate sagging of the stock market in Q2 2015 and, accordingly, reduced profitability, a number of CII managed to achieve positive results of their securities' value growth and demonstrated significantly better results in this period than other investment areas (Chart 14).

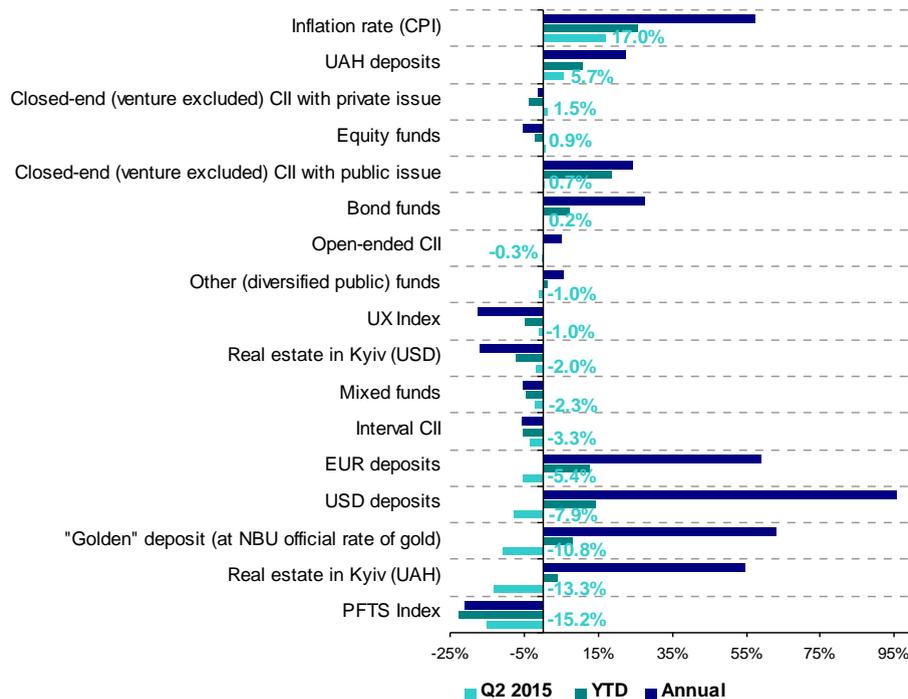


Chart 14. Rates of return of CII, deposits, equity indexes and inflation rates in Q2 2015<sup>4</sup>

<sup>4</sup> CII rates of return by types of funds are calculated based on the reporting data for Q2 2015 for 24 – open-ended, 21 – interval, 86 – closed-end CII, including 42 with public issue (without taking into account the largest and the lowest values of rates of return because of their significant deviations) and 44 with private placement and on reporting data for the previous periods – see Rankings: [CII by the Types of Funds and CII \(public, diversified\) by the Classes of Funds](#). The provided inflation rate is based on the State Statistics Service data (consumer price indexes - 2015 (before the previous month). Return on real estate in USA dollars is calculated as an average of data on property values based on the data of Kyiv real estate values from web portals: <http://www.domik.net>, <http://100realty.ua>, <http://realt.ua>; in Hryvnia – based on data from web portal <http://100realty.ua>.



The share of *equities* in the consolidated portfolios of funds, which at the beginning of the 2nd quarter was from 41% in open-ended and closed-end funds to 71% in interval CII, accordingly limited influence of these assets' dynamics on the funds' rates of return (also taking into account the significantly wider set of securities in CII portfolios compared to index "basket").

**Closed-end (non-venture) CII with private placement led** by the yield **among non-venture CII by the types of assets** in the 2nd quarter of 2015 (+1.5% on average, after +2.3% in the 1-st quarter). Rates of return of separate funds varied very widely – from -91.8% to + 267.6%.

There were 11 funds (out of 44) that multiplied their investors' assets in this sector.

The result above UX index was demonstrated by 30 closed-end funds with private issue. Also, at least two of such CII offset losses from inflation.

Reduced rates of foreign currencies (and as a result – also gold and real estate) led to negative yield of deposits in foreign currency and other exchange rate-sensitive assets in the second quarter (from - 5.4% for deposits in euros to -13.3% in real estate).

As a result, a number of CII, which were more profitable than other types of assets and areas of investments in this period, increased. At that, this applied to closed-end funds with private issue, as well as to others. And although the average yield of each sector of CII was less than yield of deposits in hryvnia, 4 separate funds surpassed them, and 39, 40 and 41 of CII were more profitable than deposits in euros, US dollars, gold and real estate, respectively.

**Closed-end (non-venture) CII with public issue** brought an average of +0.7% (after +4.8% + 18.0% in the 1-st quarter). The range of rates of return of funds, that were included in the calculation, varied from -56.9% to +52.4%.

19 out of 42 of these CII had positive figures.

29 funds outperformed the UX index, 3 – surpassed inflation, 6 - were more profitable than deposits in hryvnia, 37 – than deposits in euros, 39 – than deposits in US dollars and gold, and also compared with investments in real estate.

**Open-ended CII**, for which the average income in the 2nd quarter fell to -0.3% (after +6.7% in the 1-st quarter), also showed almost symmetric, with respect to zero, results: from -7.1% to +8.8%, from the 11 out of 24 funds that provided growth in the value of investments.

At that one fund brought more income than deposits in hryvnia, 16 – were ahead of the EX index, and all but one were more profitable than deposits in foreign currency and gold, and also than real estate.

**Interval CII** in April-June of 2015 showed an average of -3.3% (after +2.4% in the 1-st quarter), and separate funds in the sector had from -17.0% to +4.4%.

5 out of 21 funds of this type provided growth in the value of investments.

7 interval funds outperformed the UX index, 16 - surpassed the yield of deposits in euros, 17 - in US dollars, 19 - in gold, and all but one - in real estate.

**Among diversified CII with public issue by classes of assets** (according to the structure of their assets in Q2 2015)<sup>5</sup> leaders changed: *equity funds*, that provided an average income of +0.9% (after +3.8% in the previous quarter) were the most profitable. Thus, they outperformed the UX index and among all CII were behind only the defined by another classification sector, - closed-end (non-venture) CII with private issue. The results of individual CII in this class were from -9.7% to +22.2%, and two of such CII had growth.

*Bond Fund* – of an open-ended type - which this time was the only one, significantly lost in profitability: it amounted to +0.2% (after +12.8% of its own yield and +13.6% of this class's yield in the 1st quarter). However, it conceded, besides equity funds, only sectors of closed-end CII.

*Mixed investment funds* in the second quarter showed an average of -2.3% (after +1.5% in the first one) – from -17.0% to +4.4%, based on data for 19 of such CII.

"*Other*" diversified funds with public issue suffered losses at UX index level -1.0% (after +6.7% in January-March 2015). These 13 CII, which did not meet the criteria for asset structure of specialized classes, had quarterly results from -7.1% to +3.7%.

<sup>5</sup> See [Methodology of Ranking AMC and CII \(Unit and Corporate Investment Funds\) based on Their Performance Results.](#)



## **9. Resume**

Industry of collective investment institutions in the 2nd quarter changed the dynamics in comparison with the first three months of the year - on separate parameters and in some sectors, although the general trend of growth was preserved.

*As the key trends in the Ukrainian industry of collective investments in the 2nd quarter of 2015 should be mentioned the following:*

- decrease in the number of AMC and funds under management continued, as well as reducing of volume and share of assets in securities in all sectors of CII (except open-ended ones), and number of investors in the market - but there was also the weakening of capital's outflow from open-ended CII;
- in venture and other closed-end CII assets' and NAV growth continued, although at a slower pace than in the 1st quarter;
- growth of rates of return was changed by reduction - in absolute terms, at the same time yield of open-ended CII improved as compared to other areas of investment.

Lateral, moderately pessimistic trend on the stock market that occurred in that time, lowered the yield of CII, and investors largely left the market. At the same time, venture CII assets continued to grow, and a number of venture funds were able to provide better results not only in comparison with negative rates of deposits in foreign currency and other dependent on the rate of hryvnia to foreign currencies assets, and be ahead of the UX index, but also bring higher income than bank deposits in the national currency, and some of them- even offset the very high inflation at this time.

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  - [AMC Rankings](#)
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