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1. The Stock Market

In the 3rd quarter of 2014 *international stock markets* have experienced a number of shocks of both economic and geopolitical nature, which particularly affected European sites. Results indices in certain key markets around the world were significantly different.

American, Japanese and Chinese markets rose – due to a further increase of consumers' confidence and, in general, because of improving of macroeconomic situation in the USA, as well as stabilization of economic growth in China.

European key markets in Q3 2014 sank: in July - early August, they failed because of unexpectedly large losses of Portuguese's Espirito Santo - the third largest bank in the country, which had a significant impact on the international financial markets, particularly on large institutions in this sector in France. Bank's billions of lost had an unconditional negative impact on stock indicators in the region. Development of the situation in the eastern Ukraine also did not contribute to the growth.

In August, there was "rebound" in Europe which was warmed by expectations of ECB measures to stimulate growth in the euro area. However, in the absence of such steps, from early September indices in the region have stopped growing under the pressure of disinflation and euro zone's economic stagnation, including the largest of its "engines" - France and Germany, and the third largest GDP of Italy. Military conflict in Ukraine also depressed markets. So, the next time the indexes' volatility quickly moved to subsidence, which lasted until the end of the quarter. Finally, Germany with the lowest index in July-September joined to France and the UK, that recorded a decline in major equity indexes in Q2: the leading European markets showed from -0.5% to -3.5% in the 3rd quarter.

Leaders of growth during this period were Chinese (+ 16.1%) and Japanese (+ 7.1%) equities. In the US indices showed moderate growth - by 0.6-1.1% (Table. 1, Chart 1).

Table 1. National Markets' Stock Indexes' Dynamics in Q3 2014*

| Indexes | 30.06.2014 | 30.09.2014 | Q3 2014 change | Year-to-date 2014 | Annual change |
|-------------------------------|------------|------------|----------------|-------------------|---------------|
| SHANGHAI SE COMPOSITE (China) | 2 036.51 | 2 363.87 | 16.07% | 12.70% | 8.70% |
| NIKKEI 225 (Japan) | 15 095.00 | 16 173.52 | 7.14% | -0.72% | 11.88% |
| WSE WIG 20 (Poland) | 2 399.63 | 2 500.29 | 4.19% | 4.14% | 4.55% |
| DJIA (USA) | 16 851.84 | 17 042.90 | 1.13% | 3.26% | 12.65% |
| S&P 500 (USA) | 1 960.96 | 1 972.29 | 0.58% | 7.13% | 17.29% |
| CAC 40 (France) | 4 436.99 | 4 416.24 | -0.47% | 3.29% | 6.58% |
| HANG SENG (Hong Kong) | 23 221.52 | 22 932.98 | -1.24% | -1.34% | 0.32% |
| FTSE 100 (Great Britain) | 6 757.77 | 6 646.60 | -1.65% | -1.26% | 2.85% |
| DAX (Germany) | 9 815.17 | 9 474.30 | -3.47% | -0.82% | 10.24% |
| MICEX (Russia) | 1 477.32 | 1 411.07 | -4.48% | -6.18% | -3.54% |
| PFTS (Ukraine) | 443.97 | 423.68 | -4.57% | 40.98% | 41.91% |
| UX (Ukraine) | 1 226.69 | 1 077.15 | -12.19% | 18.36% | 27.04% |
| RTS (Russia) | 1 379.75 | 1 123.72 | -18.56% | -22.11% | -21.00% |

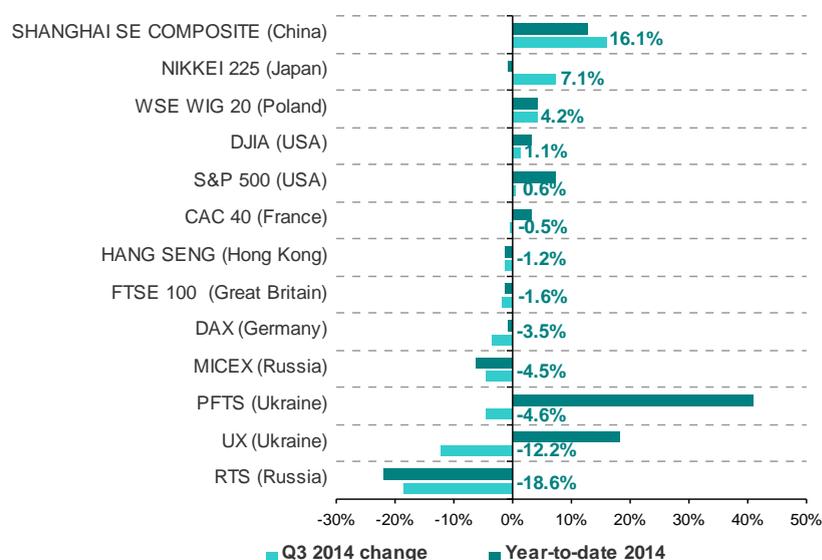


Chart 1. National Markets' Stock Indexes' Dynamics in Q3 2014*

* Based on the data of exchanges and Bloomberg Agency

Ukrainian and Russian indices that showed unnatural rise in the previous quarter, in July-September were among the outsiders for yield. Deterioration of military, political and economic situation in the east of Ukraine, as well as inhibition of the necessary reforms, coupled with further devaluation in UAH led to the destruction of investors' earlier over-optimistic expectations (+ 20.3% in Q2 by the UE index) and, accordingly, to fall of keyword indicator of Ukrainian equities in Q3 2014 by 12.2%. The index at the end of September, however, was higher than at the end of March, and its rate of return since the beginning of 2014 remained positive - + 18.4%

PFTS index for the quarter showed subsidence almost as much as the ruble's index of MICEX in Russia - by 4.6%. At that, the dollar's index of RTS, amid the failure of oil prices, global economic sanctions and the devaluation of the ruble, sank the most among key global and regional indicators of equity markets and showed a record -18.6%. In terms of rates of return for 9 months of the year MICEX and RTS indices' drop deepened to -6.2% and -22.1%, respectively.

Active trading in Ukrainian stock markets in July-September 2014 increased significantly: according to SSMNC data trading volume increased by almost 1.5 times (+ 144%) to UAH 473 315 mln. However, this was due, primarily, to the dynamics of OVDP (+163%), which supported the established trend of the previous quarters - strengthened unnatural for stock market skew of trades structure by instruments towards the government debt securities. Thus, the share of the latter in the total value of transactions executed on the stock exchanges in Ukraine during this time increased from 85% to 92%.

At that, on the main market of OVDP trading – SE "Perspectyva" - the total trading volume increased by 179% and the market share of it – from almost 74% to over 84%. It was promoted by increase of the value of transactions with government bonds by 186%, that led to increasing of their share in the structure of exchange's trading (from 98.6% to 98.8% of the auction).

The volume of trade *in municipal bonds* increased sharply in Q3 2014 (by 38 times), but it remained small – UAH 564.63 mln., or 0.2% of the total value of all transactions on the exchanges.

On the Ukrainian Stock Exchange - the leading area of trading in equities, the total value of transactions in this sector was higher, than in Q2 by 28% and amounted to UAH 2 034 mln., or nearly 88% of trading volume on the spot market of exchange.

The volume of trade in corporate bonds on UX increased in Q3 2014 by 405%, but raised only to UAH 65 mln., while on SE "Perspectyva", it increased by 69% – to UAH 1 527 mln.



Totally, at all Ukraine stock exchanges, trading volume in equities and corporate bonds increased by more than one third in Q3 2014, however they were, respectively, only 2.4% and 4.1% of the total trading volume of all instruments.

2. Number of the AMC and CII

In the 3rd quarter of 2014 the number of asset management companies continued to decline - three AMC left the market, while in the same period in 2013 there were two companies more. Thus, from the beginning of 2014 the number of participants of asset management market decreased by 10 (from 347 to 337 as of 30.09.2014) (Chart 2)¹.

Still, despite the difficult overall economic situation and narrowing of the market, it was replenished with new companies. According to UAIB data, 4 new AMC received licenses in Q3 2014.

The number of registered CII at the end of the 3rd quarter also declined – to 1586 funds (-5 or -0.3%, -18 YTD). As in Q2, there were five newly registered CII (YTD - 14). Finally, the concentration in the market continued to grow moderately - as of 30.09.2014 one AMC managed on average assets of 4.71 funds.

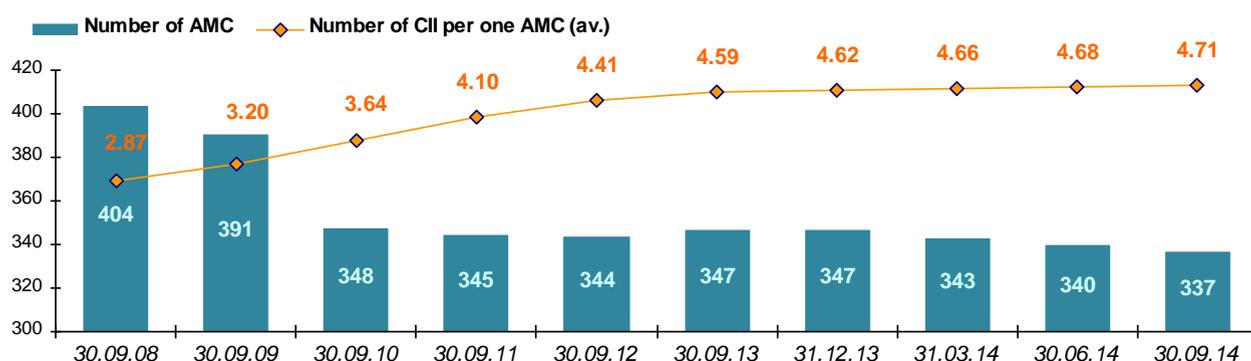


Chart 2. Dynamics of the Number of AMC and CII per one AMC in Q3 2008-2014

There was an accelerated reduction of the number of CII that reached compliance with the standard to minimal asset volume: they became less by 26 (-2.1%) in the quarter, and since the beginning of 2014 – by 43 (-3.4%). At the end of Q3 2014 there were 1207 of "recognized" acting CII under management (Table. 2).

Table 2. Dynamics of the Number of CII that Reached Compliance with the Standards in Q3 2014, by Types and Legal Forms of Funds

| | Total | UIF | | | | | CIF | | |
|----------------|-------|--------|---------------|-------|--------|-------|---------------|--------|-------|
| | | O* | * Interval | CD* | CNN* | CV* | * Interval | CNN* | CV* |
| 30.09.2013 | 1239 | 42 | 36 | 11 | 49 | 850 | 2 | 98 | 151 |
| 31.12.2013 | 1250 | 38 | 35 | 11 | 43 | 861 | 2 | 90 | 170 |
| 30.06.2014 | 1233 | 38 | 34 | 9 | 42 | 862 | 2 | 81 | 165 |
| 30.09.2014 | 1207 | 35 | 31 | 11 | 37 | 850 | 2 | 77 | 164 |
| Q3 2014 change | -26 | -3 | -3 | 2 | -5 | -12 | 0 | -4 | -1 |
| | -2.1% | -7.9% | -8.8% | 22.2% | -11.9% | -1.4% | 0.0% | -4.9% | -0.6% |
| YTD 2014 | -43 | -3 | -4 | 0 | -6 | -11 | 0 | -13 | -6 |
| | -3.4% | -7.9% | -11.4% | 0.0% | -14.0% | -1.3% | 0.0% | -14.4% | -3.5% |
| Annual change | -32 | -7 | -5 | 0 | -12 | 0 | 0 | -21 | 13 |
| | -2.6% | -16.7% | -13.9% | 0.0% | -24.5% | 0.0% | 0.0% | -21.4% | 8.6% |

*UIF - unit investment funds, CIF - corporate investment funds; O – open-ended, – interval, CD – closed-end diversified, CNN - closed-end non-diversified non-venture, CV - (closed-end non-diversified) venture funds.

¹ Including Crimea and Sevastopol City, according to available data.



During the quarter, sectors of closed-end CII narrowed the most, in particular the venture UIF (-12 funds), and also the sector of non-diversified UIF (-5) and CIF (-4). Three open-ended funds were eliminated. Other sectors by types of CII also decreased, except for closed-end diversified UIF.

Thus, the total number of acting venture CII as of 09.30.2014 was 1014 funds, and their market share again increased - from 83.3% to 84.0%, including UIF - to 70.4%.

As of 30.09.2014, according to UAIB data, in the process of liquidation there were 5 open-ended, 5 interval UIF, one closed-end diversified UIF, 5 closed-end non-diversified UIF and 17 of the same CIF, 20 venture UIF and 1 CIF (totally 54, the same as in Q2).

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 Q3 2014 continued to decline – from 62 to 54 (at the beginning of 2014 – 84), and their share among all managed CII decreased from 4.8% to 4.5% (at the beginning of the year – 6.3%). This helped to preserve the CII industry's trend of consolidation and narrowing of some of its sectors.

The number of diversified CII with public emission, along with the liquidation of 6 open-ended and interval CII, in Q3 2014 decreased from 59 to 53 funds (YTD -9).

According to the asset structure-based classification², equity funds remained 6 (2 open-ended and 4 interval CII); bond funds - 4 (in Q2 they there were not, at the beginning of the year - 5); mixed investment funds became much fewer - 26 (after 45 in the 2nd quarter, 34 at the beginning of the year). As of 30.09.2014, there were 17 "other" funds, or such that did not meet the criteria to equity, bond and mixed funds (8 in Q2, -2 YTD) (Chart 3). In accordance with the established criteria, there were no money market funds the fifth consecutive quarter.

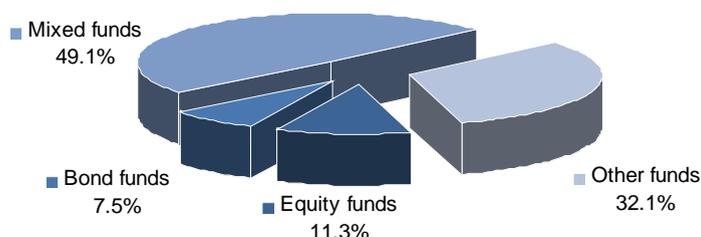


Chart 3. Diversified Publicly Placed CII, by fund class, as of 30.09.2014

3. Regional Distribution of the AMC and CII

During Q3 2014 in Kyiv 4 AMC obtained new licenses for assets management, and the total number of AMC in the metropolitan area did not change (239). In Odessa region (8 AMC) two companies ended operations during the period, while two new companies emerged in Lviv (8), so these two regions were in the Top - 5 by the number of market participants in the 3rd quarter. In Dnipropetrovsk and Kharkiv region one AMC was closed in each of them (Chart 4).

One AMC was registered in Donetsk region during the quarter, and its share in the regional distribution of asset management business increased in July-September from 4.1% to 4.5%. The share of Kyiv and Lviv region also became greater - 70.9% (after 70.3%).

The number of CII under management in the metropolitan area in Q3 2014 declined significantly, but in some other regions it was reduced relatively more, so the capital's share in the regional distribution of CII increased - from 71.1% to 71.4%. Similar changes occurred in Dnipropetrovsk region - its share increased symbolically from 7.9% to about 8%. Against the background of a general reduction in the number of CII under management, other leading regions also gained weight slightly. Thus, the remaining

² 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 of Ukraine continued to lose their positions: their total share dropped from 9.5% to 8.8% (after 9.7% at the beginning of the year).



Chart 4. Regional Distribution of AMC Number as of 30.09.2014

In the regional distribution of CII assets under management, despite the massive accumulation of assets in the metropolitan area, the trend of the previous two quarters changed - the share of Kyiv decreased (from 79.2% to 79.1%). It was caused by the relatively more active accumulation of assets in Dnipropetrovsk, Kharkiv, Donetsk and Lviv areas, the shares of which, respectively, increased. Relatively weak growth of CII assets in Zaporizhia region led to slight reduction of its share (Chart 5).

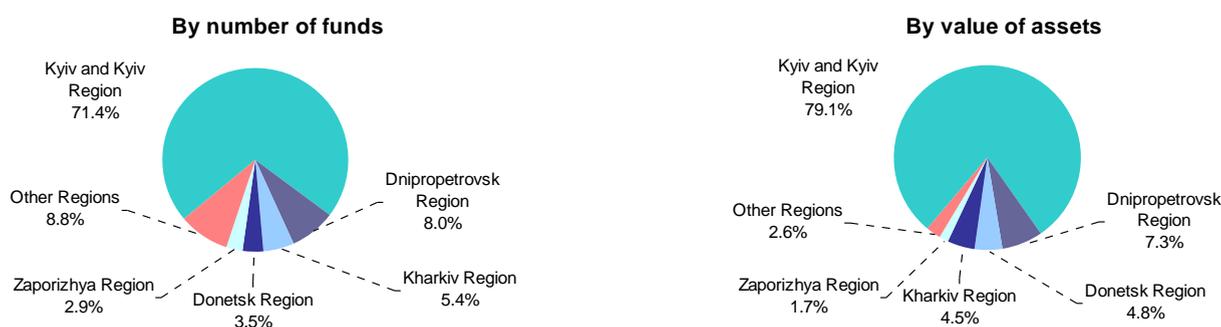


Chart 5. Regional Distribution of CII by the Number of CII and the Value of Their Assets under Management, as of 30.09.2014

4. Asset and Net Asset Value of the CII

Assets of CII in Q3 2014 continued to grow - through venture capital and other closed-end funds, even despite the further decrease of their number, and virtually no data about Crimea and Sevastopol City's funds. As of 30.09.2014, **the total CII assets** amounted to UAH 205 359.20 mln. Quarterly growth slowed to UAH 5 440.02 mln. (+ 2.7%, after + 6.8% in Q2), and YTD growth reached UAH 27 836.21 mln. (+ 15.7%) (Chart 6).

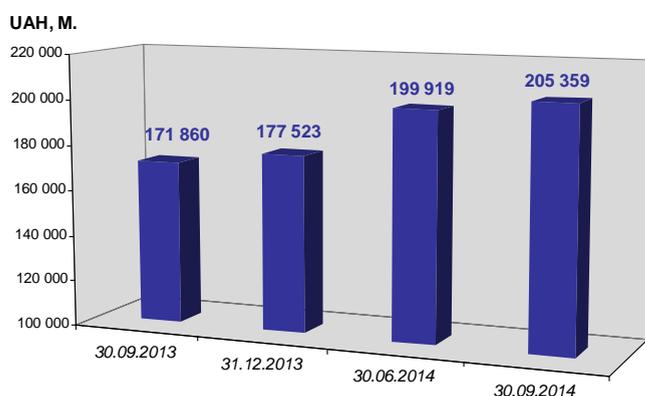


Chart 6. Dynamics of Assets of the CII in Q3 2013-2014

85% of industry's quarterly growth of assets were provided by venture capital funds: the total value of their assets increased over the three months by UAH 4 621.65 mln. (+ 2.4%, after + 7.5% in Q2), and YTD – by UAH 26 373.08 mln. (+ 15.7%) - 95% of the total increase in assets of all CII. At the end of the 3rd quarter assets of these funds reached UAH 194 556.45 mln.

Non-venture funds - due to the growth of assets of closed-end CII by UAH 838.72 mln. - increased during the quarter by UAH 818.37 mln., that was due to decrease in assets of open-ended and interval CII. During the first 9 months of 2014 all funds, other than venture, added UAH 1 463.13. mln. and amounted to UAH 10 802.75 mln. (Chart 7).

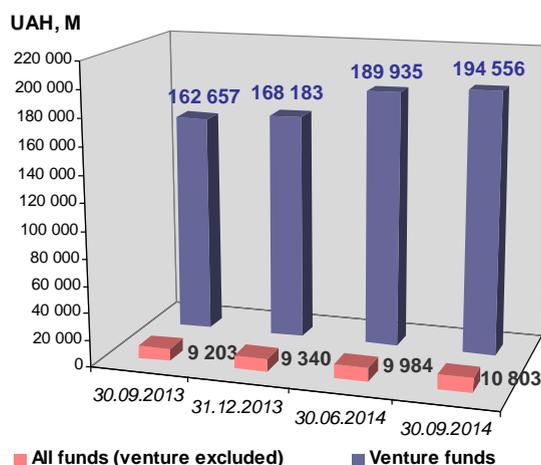


Chart 7. Dynamics of Assets of the Venture CII and All CII (excluding Venture funds) in Q3 2013-2014

Net assets increase halved in Q3 2014 as compared to Q2 – they rose by UAH 4 780.17 mln. (+ 2.7%, after + 5.8%) and totaled UAH 180 423.14 mln. *Venture* sector increased its NAV by UAH 4 186.52 mln. (+ 2.5%, after + 6.3% in Q2) - up to UAH 170 796.91 mln. (Table. 3).

Table 3. Dynamics of the NAV of CII, by the Types of Funds in Q3 2013-2014 , UAH M

| Funds | 30.09.2013 | 31.12.2013 | 30.06.2014 | 30.09.2014 | Q3 2014 change | YTD 2014 | Annual change |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|----------------|---------------|----------------|
| Open-ended | 119.15 | 103.20 | 85.95 | 71.95 | -16.29% | -30.28% | -39.61% |
| Interval | 141.99 | 122.28 | 122.28 | 115.71 | -5.37% | -5.37% | -18.51% |
| Closed-end (venture excluded) | 8 165.58 | 8 318.15 | 8 824.36 | 9 438.57 | 6.96% | 13.47% | 15.59% |
| All funds (venture excluded) | 8 426.72 | 8 543.63 | 9 032.58 | 9 626.23 | 6.57% | 12.67% | 14.23% |
| Venture | 145 233.93 | 149 880.84 | 166 610.39 | 170 796.91 | 2.51% | 13.96% | 17.60% |
| All funds | 153 660.65 | 158 424.47 | 175 642.97 | 180 423.14 | 2.72% | 13.89% | 17.417% |



Reduction of aggregate NAV of open-ended CII in Q3 2014 increased twice, to UAH 14.00 mln. (-16.3%, after -7.9% in Q2). This was due primarily to the actual closing of several funds and preparing for elimination of another five CII of the same type; outflow of capital from existing funds, as well as having in the background mostly the downward dynamics of the stock market. From the beginning of the year, NAV of the open-ended funds' sector decreased by UAH 31.25 mln. (-30.3%) and as of 30.06.2014 amounted to UAH 71.95 mln.

The sector of interval CII in July-September renewed its reduction, that was caused by decrease in the number of existing funds, including the expected elimination of two of them. NAV of CII of this type decreased by 6.57 mln. (-5.4%) - both in Q3 2014 and YTD - to UAH 115.71 mln.

Closed-end non-venture funds also became fewer, however their net assets, as opposed to the previous quarter, increased - by UAH 614.22 mln. (+ 7.0%, after - 3.2%). During the first 9 months of 2014 net asset value of the sector increased by UAH 1 120. 42 mln., to UAH 9 438.57 mln.

Totally the NAV of non-venture funds increased for the quarter by UAH 593.65 mln. (+ 6.6%,) and YTD - by UAH 1 082.60 mln. (+ 12.7%).

Return to growth of the sector of closed-end CII, against the background of the further reduction of open-ended and interval funds, contributed to the further expansion of the share of first ones in the aggregate NAV of non-venture CII. Thus, in the 3rd quarter it was almost 98.1% (after 97.7% in Q2). The share of open-ended CII fell to 0.75% (from nearly 1% in the middle of the year and more than 1.2% at the beginning of it); share of interval funds - from 1.35% to 1.20% (Chart 8).

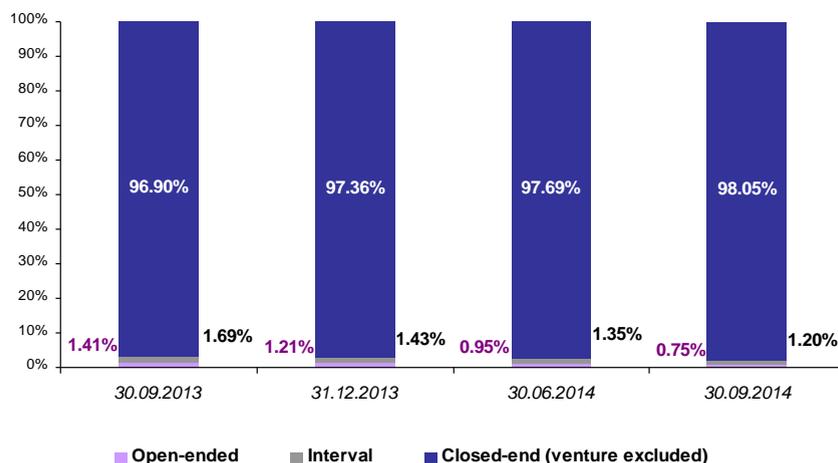


Chart 8. Dynamics of Non-Venture CII NAV Breakdown by the Types of Funds in Q3 2013-2014

Venture funds, in conditions of the sector's slowdown and relatively faster growth of NAV of other closed-end CII, experienced a slight decrease of their weight in the aggregate net assets of the industry - from 94.9% to 94.7% (Chart 9).

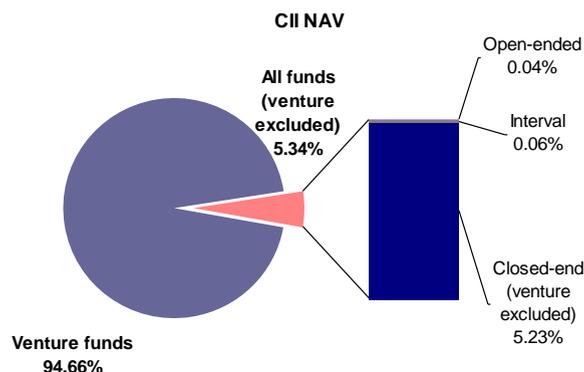


Chart 9. Distribution of CII NAV by the Types of Funds as of 30.09.2014



5. Net Capital Flow in Open-Ended CII

During the 3rd quarter of 2014 capital outflows from open-ended CII in general somewhat weakened, although it took place against the backdrop of sector's narrowing - a number of funds were under liquidation or had actually been closed.

The same as in the previous three quarters, the greatest losses in the sector were observed during the first month: in July from open-ended funds by investors UAH 8.86 mln. were seized, or 97% of quarterly net outflow. At that, several funds in this period showed significant negative movement of capital, though the "leader" – the fund with the conservative strategy – gave more than 50% of the outflow of this month. The stock market in July experienced a rapid rise, after the "side" of June, so investors fixed profit, that was a very good decision on the eve of the August-September collapse of the domestic equity's market.

The next two months of the quarter brought the moderate results to the open-ended CII, when inflows to several funds almost compensated for the sector the outflows from other ones (Chart 10, Table 4). Therefore, the influence of individual funds on overall performance of capital movements in July-September was significantly smaller than in previous quarters.

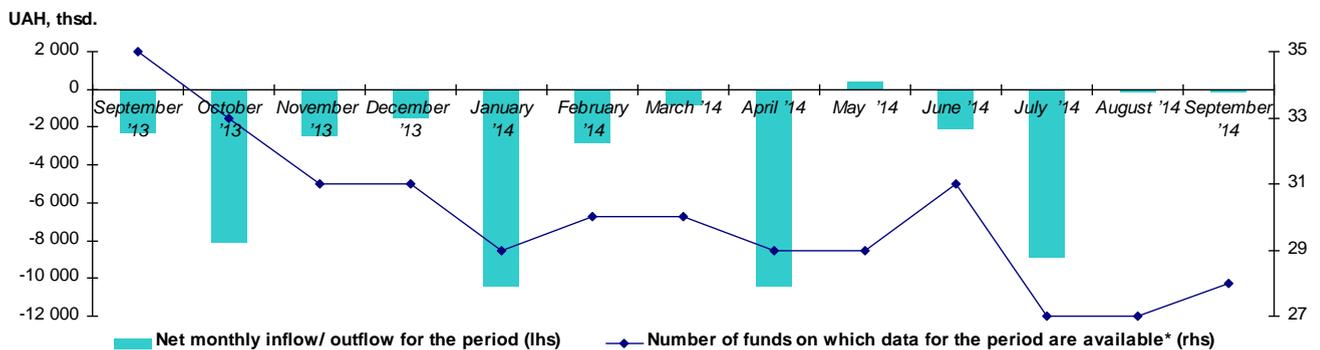


Chart 10. Monthly Net Flow of Capital in Open-Ended CII in September 2013-2014 *

* Based on daily data

The number of open-ended CII, which had net inflows during the quarter decreased from 5-8 to 3-5 per month, but the total amount of net attraction by such funds continued to grow actively. Thus, if in Q1 2014 this figure was UAH 0.45 mln., in Q2 - over UAH 1 mln., then in Q3 2014 it reached UAH 1.86 mln.

At the same time, the number of funds with a net outflow for the quarter increased from 7-10 in April-June to 7-15 in July and September, although the last month of the quarter showed improvement of dynamics in the sector both from cost and quantitative perspectives: total losses of the sector in amount of UAH 0.14 mln. were done by 7 funds, and an outsider by the outflow in the previous quarters showed the largest net inflow in Q3 2014.

Table 4. Monthly Net Flow of Capital in Open-Ended CII in September 2013-2014 *

| Month | Net monthly inflow/outflow for the period | Number of funds on which data for the period are available |
|---------------|---|--|
| September '13 | -2 360 | 35 |
| October '13 | -8 137 | 33 |
| November '13 | -2 445 | 31 |
| December '13 | -1 508 | 31 |
| January '14 | -10 446 | 29 |
| February '14 | -2 844 | 30 |
| March '14 | -804 | 30 |
| April '14 | -10 437 | 29 |
| May '14 | 398 | 29 |
| June '14 | -2 130 | 31 |
| July '14 | -8 861 | 27 |
| August '14 | -165 | 27 |
| September '14 | -144 | 28 |

* Based on daily data



The total net outflow from open-ended CII in Q3 2014 decreased again - by 25% (after -14% in Q2), to UAH 9.17 mln., that is 61% less, than in the same period a year ago (Chart 11).

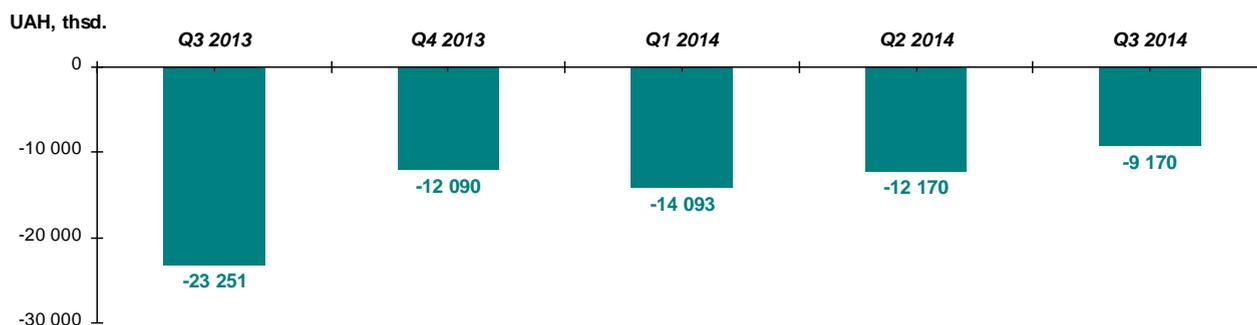


Chart 11. Net Flow of Capital in Open-Ended CII in Q3 2013-2014

Negative capital's flow was observed in the sector during the 13-th consecutive quarter. During this period UAH 192.11 mln. were withdrawn from open-ended funds.

Since the beginning of 2014, as of 30.09.2014, the net outflow amounted to UAH 35.43 mln., and for the annual period it weakened to UAH 47.52 mln. (-23% compared to the end of Q2).

In conditions of stabilization of investors' capital movement in open-end funds in August – September, and due to significant reduction of stock indices at this time, the impact of the outflow on the dynamics of net assets of the sector has decreased substantially. Thus, its proportion in decrease of total NAV of open-ended CII for the quarter fell from 166% to 66%. However, in September, as well as in June, the annual outflow had 101% decrease in net assets of the sector for 12 months.

At this time, the movement of capital in the **European UCITS** funds also weakened but remained positive: in July - September these funds attracted net EUR 130 bln. (in the previous three months – EUR 126 bln.). Thus, over 9 months of 2014 UCITS, which are the most popular among retail investors in the EU, received a net inflow of EUR 405 bln., at that for the whole 2013 it amounted to EUR 229 bln. Together UCITS funds and non-UCITS ones (special funds for institutional investors, real estate funds, etc.) received net new money from investors amounted to EUR 495 bln. over three quarters of 2014³.

However, it should be noted that the inflow into equity funds in August fell to zero, in conditions of lowering forecasts of economic growth in Europe and the world and the preserving of geopolitical tensions.

6. Investors of the CII

In Q3 2014, the largest investors of CII were legal entities-residents of Ukraine (Chart 12)⁴ which lost in the number only to citizens of Ukraine (table 5). At that, unlike the latter, the number of first ones in CII increased.

The total investments of domestic enterprises in the funds as of the end of September increased by UAH 4 517.92 mln. (after + UAH 9 685.83 mln. in Q2). Thus, this category of depositors provided the lion's share of CII' assets growth and, as a result, again increased its share in the net assets of the industry (from 78.8% to 79.2%). At that, almost 90% of contributions of these investors in Q3 2014 were in venture capital funds (after 95% in Q2).

³ See EFAMA Quarterly Statistical Release (Trends in the European Investment Fund Industry in the Third Quarter of 2014).

⁴ Excluding CII bearer securities in circulation

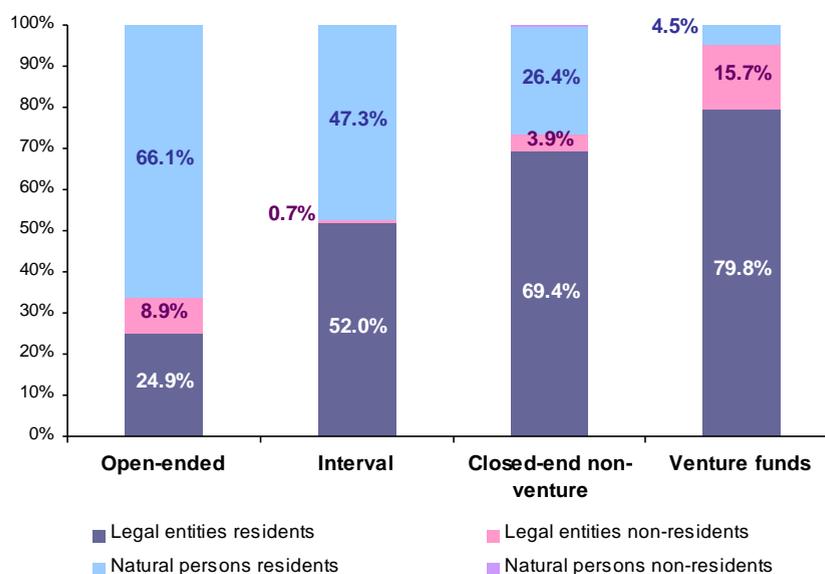


Chart 12. CII NAV Breakdown by the Categories of Investors as of 30.09.2014, share in NAV

Table 5. Investors of CII by Categories as of 30.09.2014, Number and % of the Total Number

| Funds | Legal entities | | | | Natural persons | | | |
|-------------------------------------|----------------|--------------|---------------|--------------|-----------------|---------------|---------------|--------------|
| | residents | | non-residents | | residents | | non-residents | |
| Open-ended | 33 | 1.11% | 4 | 0.14% | 2 923 | 98.68% | 2 | 0.07% |
| Interval | 48 | 0.01% | 2 | 0.00% | 823 280 | 99.99% | 20 | 0.00% |
| Closed-end non-venture | 515 | 9.71% | 33 | 0.62% | 4 744 | 89.48% | 10 | 0.19% |
| All funds (non-venture) | 596 | 0.07% | 39 | 0.00% | 830 947 | 99.92% | 32 | 0.00% |
| Venture funds | 45 974 | 97.94% | 530 | 1.13% | 426 | 0.91% | 13 | 0.03% |
| All funds (venture included) | 46 570 | 5.30% | 569 | 0.06% | 831 373 | 94.63% | 45 | 0.01% |

By number of funds' participants, legal entities – residents occupied only 5.3% in all CII, due to the large number of retail investors with small contributions *in interval CII* (table 5). Nevertheless, the companies were the second largest category in the industry as a whole and the first one - *in venture capital funds*, where their weight by the number practically did not change (almost 98%), and by the value of accumulated investments - increased from 79.4% to 79.8% in Q3 2014 (at the beginning of 2014 - 78.3%).

In open-ended CII the share of Ukrainian companies by number decreased from 1.2% to 1.1%, and by the volume of NAV – from 31.9% to 24.9% - these investors reduced the most their contributions in the sector (- UAH 8.73 mln.). At the beginning of the year the ownership of legal entities- residents constituted 47.6% of net assets of open-ended CII – during 9 months their assets in the sector decreased by 2.7 times.

Natural persons-residents in July - September 2014, in contrast to the previous three months, increased investments in CII - in venture capital and other closed-end funds (+ UAH 241.32 mln. and + UAH 182.39 mln. respectively). At last, their total funds in CII increased by UAH 417.02 mln., and their share of industry's NAV - from 5.6% to 5.7%.

Increase of Ukrainian citizens' weight in industry was due to lower divestiture from open-ended funds and a relatively larger volume of investments in closed-end CII (including venture funds) compared to corporate investors. As of 30.09.2014, *in venture funds* Ukrainian retail investors had almost 4.5% of NAV (after 4.4% in Q2 and 3.6% at the beginning of the year) and accounted for more than 0.9% by number.

Assets of Ukrainian citizens *in open-ended funds* for the quarter decreased by UAH 3.08 mln., but their share in the net assets again increased significantly - from 60.5% to 66.1%. Quantitatively, the weight of these participants in the sector increased symbolically (from 98.6% to 98.7%) - while reducing of their number, which was relatively slower than that of the legal entities.



An extremely large number of individual investors *in the interval CII* (over 830 thousands persons or 99.9% of all participants in these funds), caused by historical specificity of several CII of this type, in Q3 2014 slightly reduced. At the same time, their share in sector's NAV decreased from 47.7% to 47.3% (48.5% at the beginning of the year) - the citizens of Ukraine withdrew their investments the most actively among all categories of contributors of these funds in July-September (- UAH 3.62 mln.).

Non-residents, among which institutional investors of Ukraine played the key role, in Q3 2014 again changed their tactics: their investments decreased by UAH 143.52 mln. (after + UAH 435.39 mln. in Q2 and – UAH 510.94 mln. - in Q1). Over 60% of this reduction occurred in venture capital funds, and the amount of assets in open-ended and interval CII changed insignificantly. Finally, as of 30.09.2014, foreign legal entities owned 15.2% of the NAV of all CII (after 15.6% in Q2 and 17.5% at the beginning of the year). Specifically, 15.8% belonged to them in venture CII and 9.0% - in open-ended funds. By the number of participants, non-residents also somewhat lost their positions: their share for the quarter decreased from 1.19% to 1.16% in venture CII (1.13% of them - legal entities) and from 0.07% to 0.06% in all funds as a whole.

During the first 9 months of 2014 the aggregate value of all foreign investors' assets in CII decreased by more than UAH 290 mln. (-1.1%).

7. Asset Structure of the CII

Dynamics of composition and structure of CII **by the types of instruments** showed, that a sharp change of trend in the stock market to the downward one in Q3 2014 generally did not lead to an increase in the proportion of **securities** in the assets of funds (excluding venture ones), although their total value decreased in all sectors of CII, except closed-end non-venture ones.

Growing share of stock market's instruments was strengthened by significant decrease in the amount of monetary resources (cash and bank current and deposit accounts) - in the funds of all types, including venture ones. It also contributed to lowered weight of moneys in all sectors of CII.

Reduction of the most liquid assets was one of the most important changes that accompanied the decline in aggregate NAV of sector of interval CII. It was again the largest in the sector of open-ended funds, being held against the backdrop of continuing capital outflows and closing a number of market participants. Thus, the reduction in cash and money in bank accounts accounted to 73% of the net outflow from the sector (in Q2 - 120%). Trends in the structure of its assets, which were observed in Q2, continued in the next three months too. The dynamics for interval CII also experienced insignificant change.

So, the total weight of financial instruments in the portfolios of the aggregate assets of open-ended funds increased from 45.6% to 52.8%, in interval ones - from 75.6% to 77.1%, in closed-end funds - from 43.1% to 43.4% (Chart 13).

OVDP increased their volume in assets and share in all sectors of CII. The share of *equities* increased in open-ended and interval CII, despite reducing of their aggregate value in the correspondent portfolios. In closed end and interval funds *corporate bonds* gained the share, although the total value of these assets increased only in the first ones, and at that it was almost tripled.

Among other important changes in the composition and structure of assets of non-venture CII in July-September there were increase in volume of **“other” assets**⁵ in closed-end CII, and of their share in the open-ended CII; appearance of saving certificates in closed-end funds (by symbolic UAH 19.25 mln.).

⁵ “Other” assets include receivables, corporate rights in other forms than securities, as well as loans to the companies, a stake in the capital of which belongs to the CII (for venture funds)

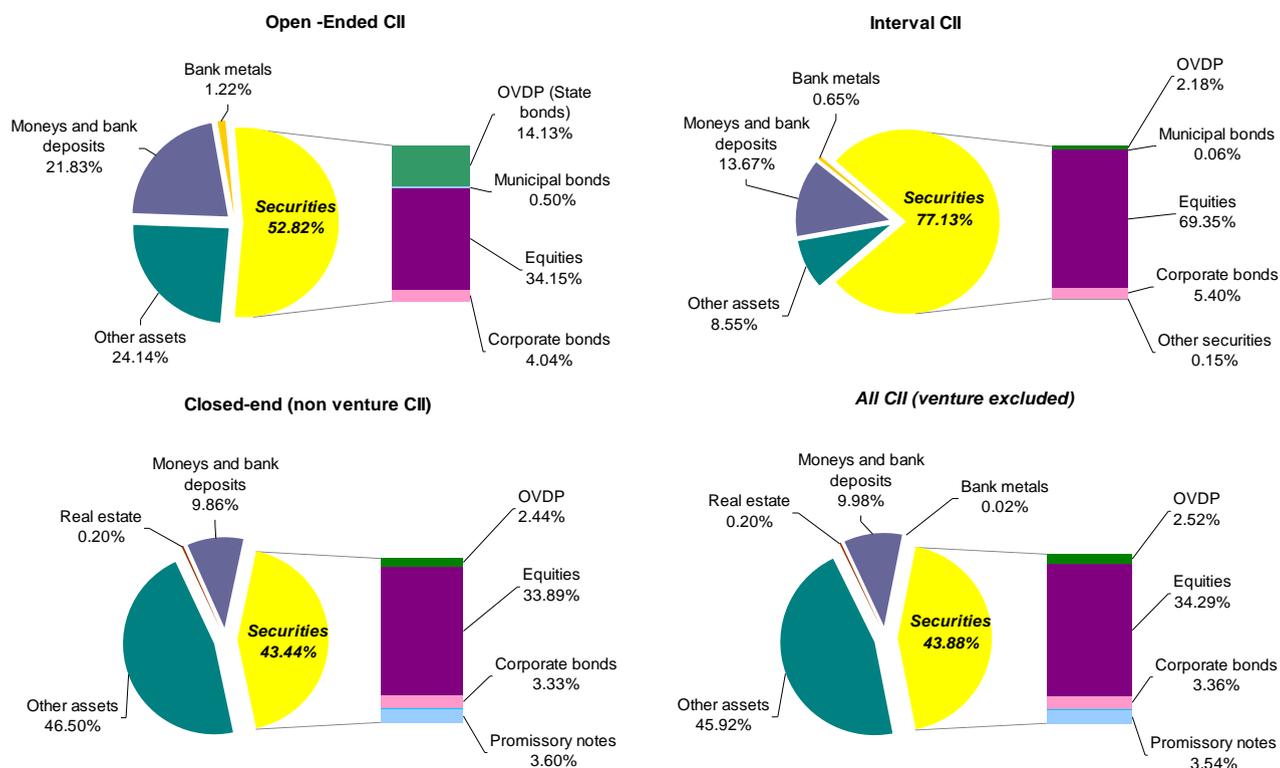


Chart 13. CII Assets Structure, Venture Funds Excluded, by the Types of Funds as of 30.09.2014

The key changes in the structure of aggregate CII portfolios were as follows.

Open-ended funds

Increase of the share of investments into such instruments:

- OVDP – from 8.9% to 14.1%;
- equities – from 32.0% to 34.2%;
- “other assets” – from 22.0% to 24.1%;

Decrease:

- moneys and bank deposits – from 30.8% to 21.8%;
- corporate bonds - from 4.3% to 4.0%;

Interval funds

Increase:

- equities – from 68.3% to 69.4%;
- OVDP – from 1.7% to 2.2%;
- corporate bonds - from 5.2% to 5.4%;

Decrease:

- “other assets” – from 9.3% to 8.6%;
- moneys and bank deposits – from 14.4% to 13.7%;

Closed-end (venture excluded) funds

Increase:

- corporate bonds - from 1.3% to 3.3%;
- “other assets” – from 45.8% to 46.5%;
- OVDP – from 1.8% to 2.4%;

Decrease:

- equities – from 36.0% to 33.9%;
- moneys and bank deposits – from 10.9% to 9.9%;
- promissory notes – from 4.0% to 3.6%.



In the aggregate portfolio of **venture CII**' assets major changes in Q3 2014 concerned continuing massive increase of "other" assets (+UAH 10 170.76 mln.) and real estate (+ UAH 597 mln.), that accordingly impacted their weights in the structure of the sector.

Instead, assets in securities significantly decreased in Q3 2014 (-UAH 4 487.95 mln.), which softened their increase in Q2. Investments in corporate bonds, equities and promissory notes were reduced the most among them, namely: bonds -UAH 2 890.38 mln., equities -UAH 984.61 mln., and promissory notes -UAH 589.27 mln.

Highly liquid assets also became much less - money in bank accounts (-UAH 1 653.37 mln.). All these losses, along with increase of the above mentioned types of assets, led to a reduction of the shares of the corresponding securities (Chart 14). At the same time, as noted earlier, venture capital funds increased their assets in OVDP, albeit symbolically (+UAH 15.51 mln.), and their share in the aggregate sector's portfolio remained insignificant (0.02%).

Municipal bonds' appearance in the assets of venture funds in Q3 2014 was also noteworthy, however their package was meager.

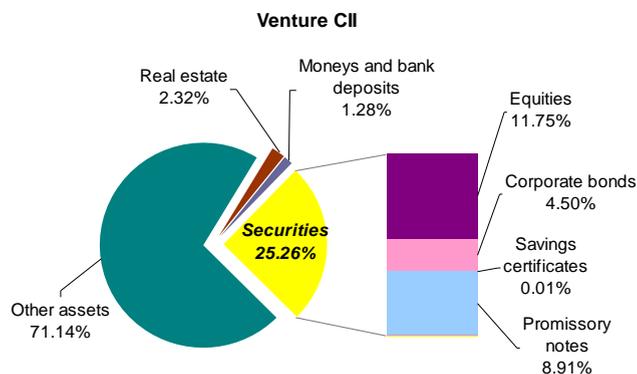


Chart 14. Venture CII Assets' Structure as of 30.09.2014

The key changes in the structure of the aggregate **venture CII** portfolio in Q3 2014 were as follows:
Increase:

- "other assets" – from 67.5% to 71.1%;
- real estate – from 2.1% to 2.3%;
- OVDP – from 0.01% to 0.02%;

Decrease:

- corporate bonds – from 6.1% to 4.5%;
- equities – from 12.6% to 11.8%;
- moneys and bank deposits – from 2.2% to 1.3%;
- promissory notes – from 9.4% to 8.9%.

The aggregate assets of all funds in securities in the 3rd quarter decreased by UAH 4 101.17 mln., thus this graded their increase in Q2 – by UAH 3 657.65 mln., though from the beginning of 2014 stock assets in the portfolios of CII became UAH 1 209.66 mln. more. As of 30.09.2014, the total value of **securities in all CII** amounted to UAH 53 872.29 mln.

Equities remained to be the largest class by the total value of investments among all classes of securities in Q3 2014. Their aggregate value decreased by UAH 917.42 mln. (after + UAH 3 974.00 mln. in Q2) – at the end of September it was UAH 26 555.72 mln.

The share of these securities in the aggregate portfolio of financial instruments in CII' assets, however, continued to grow - from 47.4% to 49.3% (42.9% at the beginning of the year) (table 6). This was due to a greater reduction of assets in corporate bonds.

Over the first 9 months of 2014 equities in CII portfolios increased by UAH 3 960.24 mln.



Table 6. Securities Portfolio of CII, by Types of Instruments, as of 30.09.2014

| Security Type | Aggregate value of the security in CII portfolios, UAH | Share in the aggregate CII securities portfolio |
|----------------------|--|---|
| Equities | 26 555 718 751 | 49.29% |
| Promissory notes | 17 713 561 831 | 32.88% |
| Corporate bonds | 9 121 604 735 | 16.93% |
| State bonds (OVDP) | 311 045 528 | 0.58% |
| Derivatives | 75 371 778 | 0.14% |
| Mortgage | 59 261 371 | 0.11% |
| Savings certificates | 34 250 000 | 0.06% |
| Treasury bills | 1 002 000 | 0.002% |
| Municipal bonds | 476 056 | 0.0009% |
| Total | 53 872 292 049 | 100.00% |

Promissory notes retained the second position and increased their share in the structure of the stock assets of CII from 31.6% to 32.9%, although their total value also fell in Q3 2014 – by UAH 596.14 mln. (after + UAH 737.10 mln. in Q2) to UAH 17 713.56 mln. Since the beginning of the year assets in promissory notes decreased by UAH 467.05 mln.

Corporate bonds in the aggregate securities portfolio of CII for the quarter became less by UAH 2 669.15 mln. (after – UAH 217.65 mln. in Q2), namely – UAH 9 121.60 mln. The third position in terms of investments they kept with a share of 16.9% (after 20.3% in Q2 and 21.2% at the beginning of the year). In January-September assets in corporate bonds also decreased the most – by UAH 2 044.21 mln.

The distribution of the remaining positions also did not change - government bonds remained the fourth largest asset's class. Although they made up less than 1% in CII assets, but their consolidated package significantly increased in Q3 2014 – by UAH 101.50 mln. (after – UAH 111.64 mln. in Q2), and YTD - by UAH 162.43. mln.

Consolidated portfolio of *open-ended, interval and closed-end CII (except venture)* in Q3 2014 increased by UAH 386.78 mln. (after – UAH 114.32 mln. in Q2), and from the beginning of the year - by UAH 276.69 mln.

Unlike it was in the previous three months, total investments of non-venture funds decreased in July-September only in promissory bills (- UAH 6.87 mln.), and marginally, in municipal bonds.

Promissory bills were again the second – UAH 381.61 mln., 8.1% of the portfolio (Table 7).

Equities hold the confident leadership in these CII: UAH 3 700.30 mln. (+ UAH 67.19 mln., after +UAH 292.43 mln. in Q2), although such a moderate increase resulted in a weight's reduction of equities from 83.5% to 78.4%.

Threefold increase of closed-end funds' investments *in bonds* in Q3 2014 led them to third place in terms of stock assets' volume of non-venture funds: UAH 362.49 mln. (7.7%, after 3.3% in Q2). From the beginning of the year, however, bonds in these CII decreased by UAH 160.52 mln.

OVDP in the third quarter practically compensated reduction of the previous quarter - assets in them grew by UAH 86 mln. (after – UAH 90 mln.) and increased their share from 4.3% to 5.7%. During the first 9 months of 2014 non-venture CII increased investments in these debt securities by UAH 140.21 mln.

Table 7. Securities' Portfolio of Non-Venture CII, by Types of Instruments, as of 30.09.2014

| Security Type | Aggregate value of the security in CII portfolios, UAH | Share in the aggregate CII securities portfolio |
|----------------------|--|---|
| Equities | 3 700 299 128 | 78.15% |
| Promissory notes | 381 606 183 | 8.06% |
| Corporate bonds | 362 492 080 | 7.66% |
| OVDP | 271 453 077 | 5.73% |
| Savings certificates | 19 250 000 | 0.41% |
| Municipal bonds | 452 056 | 0.01% |
| Total | 4 735 100 469 | 100.00% |



In diversified CII in Q3 2014 securities' portfolio decreased by UAH 126.35 mln. - mainly due to the equities (- UAH 119.71 mln.), that reduced their share from 85.2% to 84.2% (Table 8). As of 30.09.2014, the equities were here in amount of UAH 1 003.69 mln.

OVDP increased in these CII by UAH 3.00 mln. for the quarter, that insured for government securities the third position in the portfolio of diversified funds (UAH 13.80 mln., 1.2%). This was facilitated also by a decrease of assets in corporate bonds by UAH 7.17 mln. (UAH 10.25 mln., 0.9%).

Table 8. Securities' Portfolio of Diversified CII, by Types of Instruments, as of 30.09.2014

| Security Type | Aggregate value of the security in CII portfolios, UAH | Share in the aggregate CII securities portfolio |
|------------------|--|---|
| Equities | 1 003 688 102 | 84.15% |
| Promissory notes | 164 615 895 | 13.80% |
| OVDP | 13 801 573 | 1.16% |
| Corporate bonds | 10 245 778 | 0.86% |
| Municipal bonds | 430 858 | 0.04% |
| Total | 1 192 782 207 | 100.00% |

8. Rates of Return of the CII

Reducing of the Ukrainian stock market indices in Q3 2014 by 5.12%, pushed down the value of the portfolios of collective investment institutions, hence the yield of CII also fell. At that, all sectors by types and classes of assets, including equity funds, showed higher results than UX index (Chart 15).

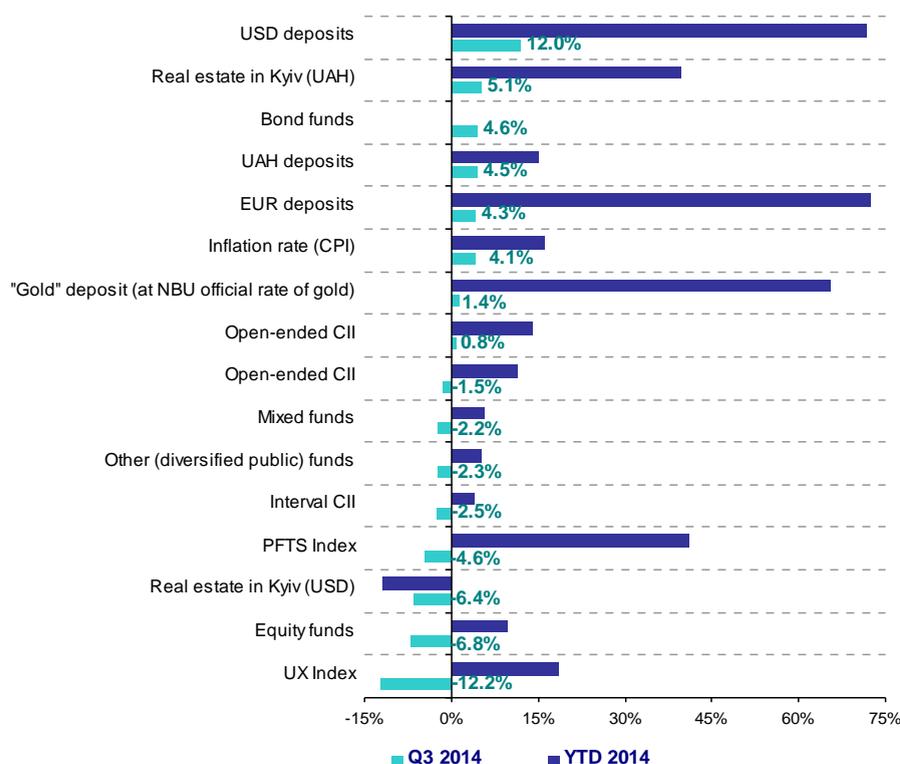


Chart 15. Average Rates of Return of CII, deposits, equity indexes and inflation rates in Q3 2014⁶

⁶ CII rates of return are calculated based on the reporting data for Q2 2014 for 28 open-ended, 25 interval, 94 closed-end CII (2 closed-end CII with the largest and the lowest rates of return are not included in the calculation because of their significant deviations) – See. [CII Rankings by the Types of Funds and CII \(public diversified\) by the Classes of Funds](#). The provided inflation rate is based on the State Statistics Committee data (consumer price indexes - 2014 (before the previous month)). Return on real estate is calculated as an average based on the data of Kyiv real estate value from web portals: <http://www.domik.net>, <http://100realty.ua>, <http://realt.ua>.



Prolonged and rapid depreciation of hryvnia against the US dollar, which has caused not only by domestic Ukrainian problems but also by the strengthening of the US currency against the euro and other key foreign currencies, provided for the relevant deposits the greatest rates of return in Q3 2014: *annual USD deposits* in July-September 2014 brought +12.0%⁷. *EUR deposits* during this time showed the average of + 4.3% and *gold ones* - only +1.4%.

Changes in the currency exchange market, which took place against the backdrop of the fall of citizens' solvency, were accompanied by a decrease of *real estate's* value in dollar terms (-6.4%), but its growth in *UAH equivalent* (+ 5.1%). Most sectors of CII by types and classes of funds had performance's results within these limits (except equity funds).

Among *non-venture CII* by the types of funds *closed-end funds* again had the highest average yield for the quarter - + 0.8% on average, and *open-ended and interval CII* this time suffered losses by an average of 1.5% and 2.5% respectively.

The range of the rates of return of individual funds within the sectors by the types of CII in this period fell, and among interval and closed-end funds – was also narrowed. Most funds, in contrast to the previous quarter, showed losses.

Open-ended CII showed results from -14.4% to + 10.0% (after -4.7% to + 20.0% in Q2). Totally, 10 out of 28 funds *increased the investments of depositors* - including 6 of such CII, which provided returns at or higher level than that in UAH deposits, 7 - EUR deposits, 9 – gold ones, and 26 open-end funds had better performance than the UX index.

Interval CII brought for the quarter revenue between -19.5% and + 7.3% (after -15.3% and + 71.2% in Q2). 7 out of 25 funds demonstrated the rising value of *their certificates or equities*, 3 among them - at or above the rate of return of bank deposits in local currency and euro, 5 – of "gold" deposits. All, but one, interval funds increased or kept from fall the value of their securities at the level of UX index.

Closed-end CII had returns in the 3rd quarter from -43.2% to 145.9% (after -51.8% and + 299.6% in Q2). 33 out of 94 funds *multiplied the funds of participants*, 7 of which outperformed USD deposits, 12 – UAH deposits, 14 – EUR deposits, and 20 – deposits in "gold". 89 closed-end funds were relatively successful in the background of UX index.

Among the classes of **diversified publically placed CII** (according to the structure of their assets in Q3 2014)⁸ *bond funds* were the most profitable (+ 4.6%), their result was at the level of *UAH deposits in banks* (+ 4.5%) (Chart 14). Only open-ended CII belonged to them in September, including the leader of this sector. All of them in June belonged to other classes of assets.

Equity funds in the quarter, naturally, were outsiders by yield -6.8% (after + 10.2% in Q2 and + 6.8% in Q1). Performance of individual funds were in the range from -14.4% to + 4.6%. They are those 2 open-ended and 4 interval CII, that met the criteria for equity funds class of in the previous quarter and early in the year.

Mixed funds, which in June 2014 included 13 open-ended and interval CII, showed an average of -2.2% (after + 5.2% in Q2). The range of rates of return in this class was within -19.5% and + 6.0%.

"Other" diversified public funds, i.e. 9 open-ended, 6 interval and 2 closed-end CII, which in Q3 2014 did not meet the criteria for specialized classes' funds, brought during this period an average -2.3% (after + 1.8% in Q2) . Yield of different funds was in the range of -7.7% to + 4.8%.

According to established criteria, there were *no money market funds* the 5th consecutive quarter.

So, open-ended bond funds were the most successful in the 3rd quarter of 2014 not only among CII, but also in a wider range of areas for investment. Two of them, which during the last 4 quarters two or

⁷ 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 based on the rate of return on current accounts (on average 2.6% - 2.8% per annum) . In the meantime, the rates of return calculated do not take into account possible commissions and other costs incurred at entry to/exit from funds, as well as investment profit taxation.

⁸ See: [Methodology of Ranking AMC and CII \(Unit and Corporate Investment Funds\) based on Their Performance Results](#).



three times appeared in the bond class, brought from the beginning of the year respectively + 44.2% and + 27.1%, and for the year - 47.0% and 30.1%.

In general, all sectors of CII retained a positive yield in 2014, in particular open-ended funds demonstrated + 11.4%, closed –end - + 14.2%, interval - + 3.9%; equity funds - + 9.6%, mixed (balanced) funds - + 5.6%, "other" diversified public funds - + 5.2%.

Resume

The downward trend of stock market, which began in late July, together with the socio-political and military turbulence in Ukraine, increasing pressure on business from the government's side, left its mark on the activities of collective investment institutions and their results in the 3rd quarter of 2014.

In asset management industry two-way process took place: closing and exit from the market of some participants and appearance of another new ones. However, eliminating of business dominated, what, in particular, concerned the sector of open-ended CII. Although the net outflow of capital continued to weaken here- due to, among the other factors, inflows' increasing to some of these funds, - however, the narrowing of the sector in terms of number of CII and AMC is the most likely prospect for coming quarters.

Unaccustomed decrease in the number of venture CII at that time did not prevent the sector - and along with it the entire industry – from continuing multiplication of the assets, albeit in a slow pace.

CII's rates of return in the 3rd quarter as a whole decreased, that corresponded to a decrease of stock indexes, however, a number of individual CII in each sector by the types and classes of funds managed not only to preserve the value of their securities, but also to increase it. At that, the results of some non-venture funds outperformed not only the yield of deposits in national currency, but also in US dollars, and among sectors of CII bond funds had an average yield which was above UAH deposits. All funds in this class, in terms of performance in September 2014, were open-ended ones. Leaders of the previous quarter, equity funds, in July-September had the largest losses among all CII, nevertheless they were almost half of the UX index fall.

During this period a popularity of government debt securities increased in all types of CII, that was caused by an increase of their profitability, reducing of equity funds' market and a general lack of reliable and attractive in terms of profitability and risk instruments for funds' investments. The deteriorating situation in the banking sector in the conditions of local currency fall and the outflow of deposits from banks once again questioned the degree of risk of this type of assets - both for retail depositors and institutional investors. Significant reduction of funds in bank accounts of open - ended CII "promoted" also the need for redemption of securities from those investors, who left the funds.

The main investors of CII, who increased investments in venture capital and other closed-end funds in Q3 2014, were domestic legal entities and citizens of Ukraine. The first ones, however, reduced their investments in open-ended funds. The positive overall net capital flow of non-residents in CII was recorded only by foreign citizens, while the enterprises - non-residents as a whole reduced their presence in funds (except open-ended CII).

At the end of the 3rd quarter of 2014 the share of domestic investors in the funds of CII reached almost 85%. In open-ended funds more than 66% belonged to Ukrainian retail investors, while their number in the sector decreased in the quarter. In venture capital funds there were more investors of all categories, except for foreign enterprises. In general, the attractiveness of this instrument for large private investors - both corporate and retail ones - only increased, despite an increase in both economic, political and regulatory risks in the industry.

CII' results since the beginning of 2014 in all funds' sectors by types and classes of CII abstained in the positive plane, and open-ended and closed-end funds as a whole could compete in terms of yield with bank deposits in national currency.



Additional information on CII on the UAIB website:

- The Ukrainian Fund Market in Figures⁹
- Weekly statistics of Open-Ended CII
- Monthly Reviews of Public CII
- CII Rankings¹⁰
- AMC Rankings¹¹

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⁹ <http://www.uaib.com.ua/eng/analituaib.html>

¹⁰ <http://www.uaib.com.ua/eng/analituaib/rankings/ici.html>

¹¹ <http://www.uaib.com.ua/eng/analituaib/rankings/kua.html>