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1.The Stock Market

International stock markets ended last quarter of year 2012 on positive note, having mostly maintained upward dynamics during an entire quarter. The optimism was, among other, due to a stable policy of the ECB on liquidity support in the Euro zone announced back in July 2012, which contributed to comforting investors and increasing confidence in the stock markets. However, that mainly concerned the debt markets that received an inflow of cheap resources, whilst the key stock market players remained not very confident about the propriety of further equity markets' growth and kept low risk appetite.

However, under conditions of ultra-low rates in the money market and in the sectors of sovereign bonds of developing countries, investors were looking for the sources of higher yields, which increased the attractiveness of debt securities of both EU periphery states and developing states. International equity markets, many of which had grown significantly since the beginning of 2012 and were demonstrating record-breaking index values for several years in a row, were still generating demand on the part of more risky investors. The reasons for that was an undervaluation of assets compared to the historical highs, as well as favorable expectations based on fundamental indicators.

The situation in the macroeconomics of Europe and the United States was controversial, as production growth in Germany and improvements in the labor and housing markets in the US were accompanied by only partially solved problems with the government debts of a number EU states, among which were not only several "rescued" nations, but traditionally stronger economies as well. Furthermore, GDP growth of the major EU members, as well as of the commonwealth on the whole, continued to slow down, and in several states even was replaced by a decline. In mid-quarter, equity markets in the US sank in connection with Presidential elections, the results of which received a mixed response from investors.

Asian markets, unlike in the preceding quarter, by 2012 end were among the growth leaders. Chinese equities were adding in price as positive news were arriving from Europe and, in their turn, were giving a positive impulse to Japanese indexes that were significantly dependent on the situation in EU, as well as China markets as the key trade partners of Japan. Furthermore, the stock market of the most developed eastern economy extremely dependent on export rallied due to human resource changes in the bank of Japan, which implied movement towards coping with destructive deflation by way of a controlled yen devaluation.

Eventually, in Q4 2012, key global equity indexes demonstrated between -3.7%/-2.7% in the US and up to +8.8% in Hong Kong, and +17.2% in Japan. Russian indicators were mixed (-0.1%/+4.7%), and among "young" EU states Poland performed best of all (+8.9%) (Table 1, Chart 1).

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Table 1.

*National markets' stock indexes in Q3-Q4 and over 2012**

Indexes	31.12.2011	30.09.2012	31.12.2012*	Q3 2012 chng	Q4 2012 chng	2012 chng
NIKKEI 225 (Japan)	8 455.35	8 870.16	10 395.18	-1.52%	17.19%	22.94%
WSE WIG 20 (Poland)	2 144.48	2 371.42	2 582.98	3.91%	8.92%	20.45%
HANG SENG (Hong Kong)	18 434.39	20 840.38	22 666.59	7.20%	8.76%	22.96%
CAC 40 (France)	3 159.81	3 354.82	3 620.25	4.95%	7.91%	14.57%
SHANGHAI SE COMPOSITE (China)	2 199.42	2 086.17	2 233.25	-6.26%	7.05%	1.54%
DAX (Germany)	5 898.35	7 216.15	7 612.39	12.47%	5.49%	29.06%
RTS (Russia)	1 381.87	1 458.26	1 526.98	7.98%	4.71%	10.50%
FTSE 100 (Great Britain)	5 572.28	5 742.07	5 925.37	3.07%	3.19%	6.34%
MICEX (Russia)	1 402.23	1 475.70	1 474.72	6.36%	-0.07%	5.17%
S&P 500 (USA)	1 257.60	1 440.67	1 402.43	5.76%	-2.65%	11.52%
DJIA (USA)	12 217.56	13 437.13	12 938.11	4.32%	-3.71%	5.90%
UX (Ukraine)	1 458.87	1 007.86	950.56	4.23%	-5.69%	-34.84%
PFTS (Ukraine)	534.43	369.47	328.69	1.98%	-11.04%	-38.50%

* *As of 28.12.2012. Based on the data of exchanges and Bloomberg Agency*

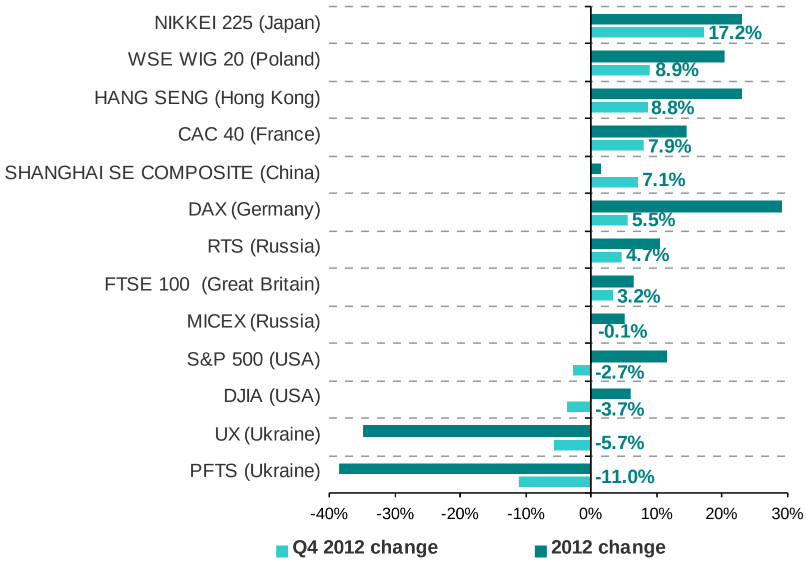


*Chart 1. National markets' stock indexes' dynamics in Q3-Q4 and over 2012**

Trading activity in the key national stock exchanges in Q4 was characterized by a common trend towards decline: an aggregate value of transactions made on the UX dropped by 12.3% up to UAH 2 064.76 mln., and in the equity segment - by 21.7% up to UAH 1 741.33 mln. In the meantime, the number of transactions in securities made on the exchange grew by 5.2%, and in equities in particular – by 4.7%, while trading in corporate bonds improved by both said indicators – an aggregate value of trades increasing by 214.5% up to UAH 277.43 mln., and the number – by 17.0%, or, in other words, an average size of transactions in corporate bonds grew substantially.

An aggregate volume of trades on PFTS in Q4 decreased twice – up to UAH 13 082.01 mln., though mainly due to a severe reduction of the volumes of trades in domestic government bonds (-63.5% to UAH 7 964.08 mln.). The volume of trades in equities increased by 142.8% up to UAH 1 091. 36 mln., and in corporate bonds - by 16.0% to UAH 3 690.68 mln. Also notable was an increase of the volumes of trades in CII securities – by 206.0% to UAH 99.89 mln.

Under such conditions, Ukrainian equity indexes, which had dropped by more than 20% in October on the eve of parliamentary elections, until the end of the quarter hardly had any support on the part of investors, as a result, over quarter they sank by 5.7%/11.0%. Among the drivers of such market dynamics should be mentioned long-term political uncertainty, impairment of business climate in the state and, as a result, an exit from the Ukrainian financial market, including from its stock market segment, of several big international players.

Therefore, according to the results of an entire year 2012, Ukrainian equities also were among outsiders with even more expressive indicators. For example, while leading equity markets grew by 1.5%/29.1% (China and Germany respectively), national – lost 34.8%/38.5% and, finally, performed better than the Cyprus peer only, which receded more than twice (-61%) as the state was nearing to default.

2. The Number of AMC and CII

By the end of 2012, the number of asset management companies grew rapidly due to anticipated changes in the licensing requirements as regards AMC activities, which came into effect on January 1, 2013. According to the UAIB data, as of 31.12.2012 there were 353 AMC in operation in Ukraine (+9 after +4 in Q3) (Chart 2).

The number of registered CII in Q4 2012 also continued growing quickly (+26 funds after +21 in Q3) – up to 1544 funds. However, compared to a jump-like increase in the quantity of AMC, such growth was more moderate and resulted in a minor weakening of concentration in the collective investments market. As of 31.12.2012, there were on average 4.37 per one AMC (after 4.41 in previous quarter).

During Q4, 39 new CII were registered (after 29 in Q3), at that, 22 of them were CIF which are recognized such that reached compliance with the standards immediately after registration as CII.

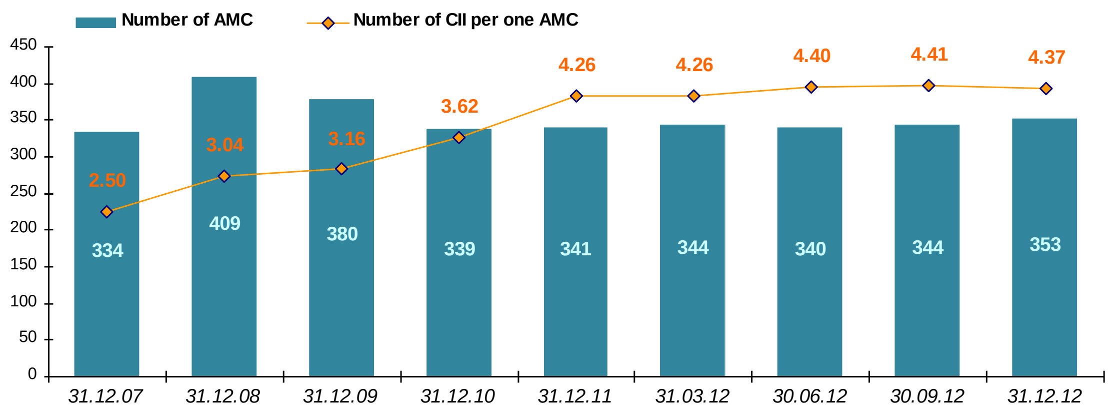


Chart 2. Dynamics of the number of AMC and CII per one AMC in Q4 2008-2012 and during 2012

In Q4 2012, according to the UAIB data, 46 CII reached compliance with the standard to the minimal asset volume (Q3 – 29). Thus, a growth of the number of recognized funds broke the slowing down tendency that had been observed during preceding quarters. That was due to an acceleration of the dynamics of reaching compliance with the standards by new (venture) CII. In the meantime, liquidation of several operational funds continued.

As a result, the total number of formed CII in Q4 increased by 22 funds, which almost repeated Q3 indicator, and as of 31.12.2012 reached 1222 (Table 2).

Table 2.

Dynamics of the number of CII that reached compliance with the standards, by fund type and legal form, in Q1-Q4 2012

	Total	UIF					CIF		
		O*	I*	CD*	CNN*	CV*	I*	CNN*	CV*
31.12.2011	**1125**	43	40	10	35	772	2	128	95
31.03.2012	**1158**	42	38	13	39	791	2	124	109
30.06.2012	**1179**	42	38	13	41	805	2	119	119
30.09.2012	**1200**	41	39	13	46	817	2	118	124
31.12.2012	**1222**	41	38	13	45	829	2	110	144
Q4 2012 change	**1.83%**	0.00%	-2.56%	0.00%	8.70%	0.86%	0.00%	-6.78%	16.13%
2012 change	**8.62%**	-4.65%	-5.00%	30.00%	42.86%	6.74%	0.00%	-14.06%	51.58%

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

The sectors of venture PIF and CIF became the growth leaders (+12 and +20 CII respectively, after +12 and +5 in Q3), at that, among venture PIF 26 funds reached compliance with the standards.

Unlike in Q1-3, the number of closed-end non-diversified PIF decreased, as one fund was liquidated and two more funds were in the process of liquidation. The number of similar CIF also declined (-8 funds, 14 – in the process of liquidation, and no new funds that reached compliance with the standards).

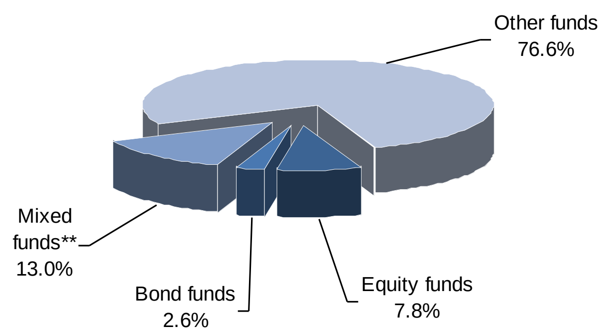
Similar situation was also observed in the sector of interval CII: one fund exited from the market in connection with its AMC liquidation. In connection with that, one open-end fund also exited from the market, having announced liquidation at year beginning. In the meanwhile, one open-ended CII joined the sector having reported on reaching compliance with the standards in Q4.

As of Q4 end, the number of open-ended CII with asset value below the normative grew from 15 to 17 in Q3 (from 12 in Q4 2011). Thus, since year beginning the share of funds with asset value below the normative increased from 29.3% to 41.5%. For the next year only two raises of minimal wages are planned – by 1.1% as of January 1 and by 6.2% as of December 1 – which will have a respective impact on the normative as regards the minimal CII asset volume.

All in all, as of 2012 end, among all registered funds under AMC management there were 97 funds that were yet to reach compliance with the said normative (after 116 in Q3).

According to the classification of publicly placed diversified CII based on their asset structure[1], the total number of such CII in Q4 decreased from 78 to 77, having returned to the start of 2012.

The quantity of equity funds and bond funds grew to 6 and 2 respectively, with two open-ended CII present in each of the groups. In the meanwhile, the class of hybrid funds narrowed (from 12 to 10 CII, including 4 open-ended ones). Funds of these classes all together made up to less than a quarter of all diversified public CII, with the rest of funds being attributed to “other funds’ class (such that did not meet the criteria of equity, bond and hybrid fund classes). However, their number narrowed from 61 to 59, and a respective share – from 78.2% in Q3 to 76.6% (Chart 3).



** Funds that filed reports. ** Hold equities, bonds and moneys in their portfolios.*

Chart 3. Diversified publicly placed CII, by the classes of funds as of *31.12.2012*

3. The Regional Distribution of AMC and CII

With the above-mentioned regulatory changes implemented, by 2012 end, an establishment of new asset management companies accelerated. By Q4 end, 12 AMC received licenses and entered the market in Kyiv region (including Kyiv), as well as in Donetsk, Kharkiv and Odessa regions – one company in each.

The number of companies that exited from the business also increased: in Kyiv and region there were 6 such AMC, as well as one in Dnipropetrovsk and one in Kharkiv regions. Thus, the total number of companies in Kyiv and region increased by 6 to 247 (Chart 4), whilst their respective share continued narrowing slowly – from 70.1% to 70.0%.

[1] See Rankings “Collective Investment Institutions (CII) - by fund class”: http://www.uaib.com.ua/eng/analituaib/rankings/ici.html

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Chart 4. Regional distribution of AMC number as of 31.12.2012

The regional distribution of CII, unlike in Q3, demonstrated a minor broadening of the share of Kyiv and Kyiv Region – from 70.0% до 70.2%. The respective shares of Dnipropetrovsk and Kharkiv narrowed within 0.6 percentage points, and of the other regions-leaders remained virtually unchanged (Chart 5). The share of the other regions, just as in the situation with AMC, accounted for about 10% of the institutions' quantity only.

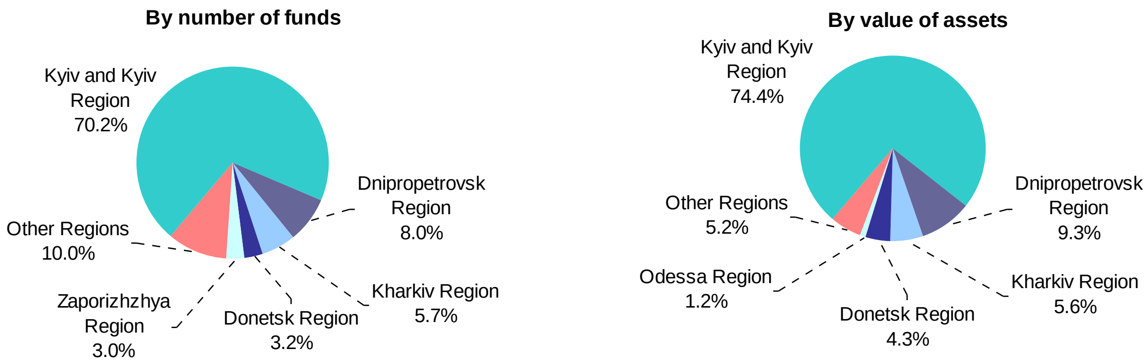

Chart 5. Regional distribution of CII by the number of CII and the value of their assets under management, as of 31.12.2012

Unlike in Q3, the share of Kyiv Region within the *regional distribution of CII assets under management* in Q4 notably expanded (from 73.3% to 74.4%). As a result, the relevant shares of the rest of the regions within the aggregate CII assets narrowed, with the greatest decrease observed in Donetsk region – from 6.22% to 5.65%. CII in the rest of the country's regions, apart from five most active regions, as of 31.12.2012 still accounted for slightly over 5% of the market assets.

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4. The Asset and the Net Asset Value of CII. The Net Inflow/ Outflow of Open-Ended CII

Q4 strengthened the trends observed in the dynamics of CII market assets during preceding quarters: the sectors of open-ended and interval funds were incurring losses under conditions of the downfall and a slow recovery in the stock trading floors, and the sector of closed-end CII, in particular, of venture ones, was growing actively.

At that, whilst the total assets of closed-end funds (with exception of venture ones) grew, the number of CII of this type that filed reports with the UAIB declined by 9 funds (145 vs 154). In the meanwhile, there were 40 more venture CII that reported on their quarterly results (926 vs 886). Similar were the indicators for interval and open-ended CII – one fund less and one fund more than in Q3.

Therefore, as of 31.12.2012, an **aggregate value of CII assets** reached UAH 157 201.13 mln., with an almost tripled quarterly growth – up to +UAH 14 978.16 mln. (+10.5%), including in venture CII – up to +UAH 14 475.48 mln. (+11.0%), with their respective assets reaching UAH 145 912.29 mln. (Chart 6). Since the beginning of 2012, the total market assets increased by UAH 30 411.53 mln. (+24.0%), including those of venture CII – by UAH 29 010.89 mln. (+24.8%).

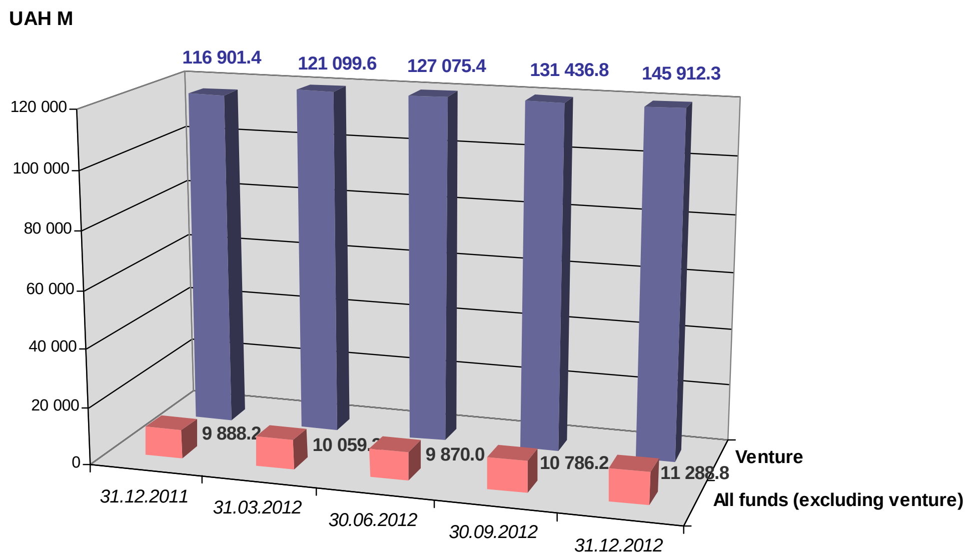

Chart 6. Dynamics of the asset value of CII in Q1-Q4 2012

The net assets of CII in Q4 2012 in all sectors of funds demonstrated a weaker growth compared to the one of the total assets. In open-ended and interval CII, in addition to asset decrease, the negative dynamics was also due to an increase of aggregate liabilities, which in closed-end CII virtually evened asset growth (+0.6% of NAV growth versus +5.1% of asset growth). The net assets of venture funds also grew relatively slower than the total ones, though the difference was not that substantial (+10.7% of NAV growth).

In monetary terms, the net assets value of venture CII over Q4 grew by UAH 12 526.98 mln., up to UAH 129 498.42 mln. Finally, aggregate net assets of all CII went up by UAH 12 556.83 mln. (+9.9%) – more than two times faster than in Q3, and as of 31.12.2012 comprised UAH 139 260.58 mln. (Table 3).

The dynamics of NAV in the sectors of open-ended and interval funds was opposite. Decrease in open-ended funds went at the pace of Q2 this year, or, in other words, was three times greater compared to three preceding months. All in all, these CII incurred a net asset decrease in amount UAH 19.18 mln. (-10.7%) – up to UAH 160.54 mln., having approached to their historical low of Q2 2009, taking into account an increase in the number of funds (UAH 158.31 mln., 33 funds). Interval CII NAV decline almost similarly quickly accelerated and reached –UAH 8.87 mln. (-5.38%), up to UAH 156.00 mln.

An aggregate growth of CII NAV over an entire year 2012 reached UAH 26 569.51 mln. (+23.6%), including in venture ones – UAH 25 841.51 mln. (+24.9%).

Table 3.

Dynamics of the NAV of CII, by the types of funds, in Q1-Q4 2012, UAH mln.

Funds	31.12.2011	31.03.2012	30.06.2012	30.09.2012	31.12.2012	Q4 2012 change	2012 change
Open-ended	227.01	206.40	186.03	179.72	160.54	-10.67%	-29.28%
Interval	181.85	179.27	168.53	164.86	156.00	-5.38%	-14.22%
Closed-end (venture excluded)	8 625.30	8 987.08	8 884.58	9 387.73	9 445.63	0.62%	9.51%
All (venture excluded)	*9 034.16*	*9 372.76*	*9 239.14*	*9 732.31*	*9 762.16*	*0.31%*	*8.06%*
Venture	103 656.91	104 928.54	111 495.19	116 971.44	129 498.42	10.71%	24.93%
All (venture included)	**112 691.07**	**114 301.30**	**120 734.34**	**126 703.75**	**139 260.58**	**9.91%**	**23.58%**

In addition to the tendency of NAV decrease in most liquid CII sectors continuing at least since Q3 2011, as well as closed-end net asset growth, the tendency towards market redistribution in favor of the latter was preserved. In such way, in Q4 2012, the shares of open-ended and interval CII narrowed from 1.9% to 1.6% and from 1.7% to 1.6% accordingly. In the meanwhile, the share of closed-end (with exception of venture) funds broadened within CII NAV from 96.5% to 96.8%, not taking venture funds into account. Since year beginning the sector grew its respective share by 1.3 p.p. (Chart 7).

Chart 7. Dynamics of non-venture CII NAV breakdown by the types of funds in Q1-Q4 2012

Market NAV breakdown taking into account venture CII in Q4 was opposite to the one of Q3. Insofar as venture sector growth went at a much faster pace than the one of closed-end (with exception of venture) funds, the share of the former broadened from 92.3% to 93.0%, and of the latter – narrowed from 7.4% to 6.8%. The shares of open-ended and interval CII as of 31.12.2012 comprised only 0.1% of the market each (Chart 8).

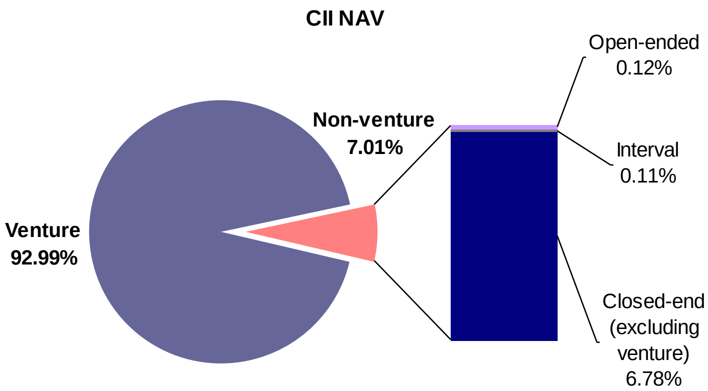

Chart 8. Distribution of CII NAV by the types of funds as of 31.12.2012

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Capital outflow from open-ended CII somewhat intensified during three last months of year 2012, though in December it slowed down up to June level (Chart 9, Table 4). In October, along with the stock market downfall on the eve of parliamentary elections by 22% since Q4 beginning, an outflow from the sector of open-ended funds nearly doubled (UAH 3.33 mln.) compared to September, and in November accelerated even more (UAH 3.96 mln.), though in both instances 48-60% of the aggregate net outflow from funds was due to one fund, which lost most during an entire year of 2012 and due to its performance generated 37% of the aggregate net outflow.

In the meantime, the number of open-ended CII, which each and every month had a certain additional inflow of capital from investors, somewhat increased (from 2-4 to 4-5 funds). It is worth noting that those were mainly CII with aggressive strategy. In aggregate, they attracted UAH 2.29 mln. during Q4 (compared to UAH 1.47 mln. in Q3).

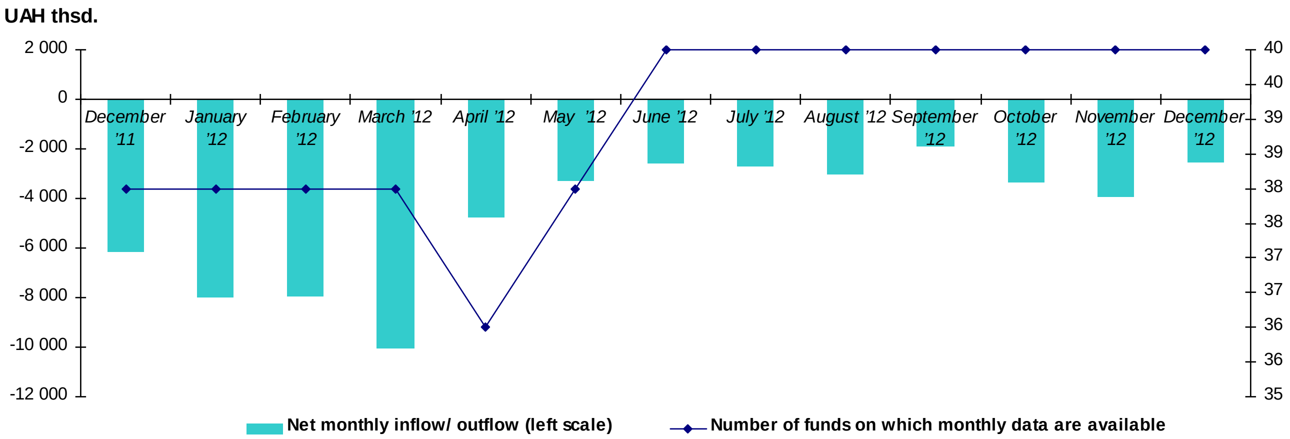

Chart 9. Monthly net inflow/ outflow of capital in open-ended CII in December 2011-2012 (based on daily data)

Table 4.

Monthly net inflow/ outflow of capital in open-ended CII in December 2011-2012

Period	Net monthly inflow/ outflow	Number of funds on which monthly data are available
December '11	-6 137.97	38
January '12	-7 987.14	38
February '12	-7 951.99	38
March '12	-10 031.73	38
April '12	-4 747.91	36
May '12	-3 322.54	38
June '12	-2 579.38	40
July '12	-2 690.07	40
August '12	-3 024.80	40
September '12	-1 872.90	40
October '12	-3 333.35	40
November '12	-3 962.74	40
December '12	-2 531.93	40

Thus, **an aggregate net outflow from open-ended CII** reached UAH 9.83 mln. in Q4 2012, having grown by 30% compared to Q3, but turned out to be 73% lower than in Q4 2011 (Chart 10).

All in all, during 2012, investors withdrew from open-ended funds UAH 54.04 mln. more than invested. Thus, an outflow of capital in Q4 slowed down by one third (in Q3 annual net outflow reached UAH 81.22 mln.).

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Summarizing the above, it is worth noting that funds' losses incurred as a result of investors' exit amounted to a half (51%) of Q4 open-ended CII sector NAV decrease, whilst the rest of the negative impact was on the part of the stock market. Over 2012, the share of investments' outflow within the sector net asset decrease reached 81%.

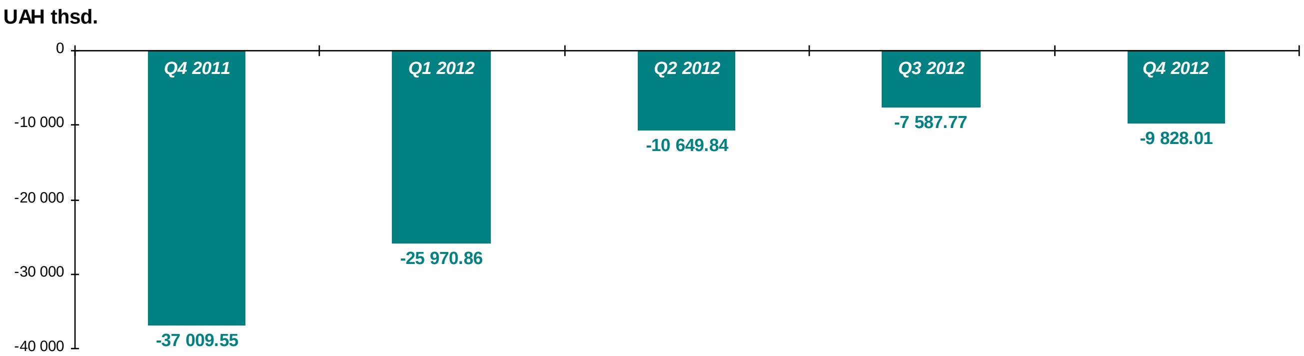

Chart 10. Net inflow/ outflow of capital in open-ended CII in Q4 2011-2012

Unlike in Ukraine, the situation in well-developed markets in Q4 appeared much more positive. European open-ended investment funds (UCITS) attracted EUR 78 bln., which almost four times exceeded Q3 net inflow (EUR 20 bln.), with net assets growth up to EUR 6 295 bln. At that, long-term funds additionally attracted twice more than in the preceding quarter, – EUR 106 bln., in particular, bond funds – EUR 61 bln. (after EUR 50 bln. in July-September). That was due to an increase of investors' confidence in further stock market growth, and, among other, actions taken by the ECB on support of the Euro zone by unlimited liquidity. Equity funds, after EUR 9 bln. of outflow in the preceding quarter, additionally attracted EUR 30 bln. In the meantime, under conditions of ultra-low interest rates and competition on the part of bank products, money market funds lost EUR 28 bln. (after –EUR 31 bln. in Q3), as the rates of return generated by them did not attract investors.

During 2012, UCITS funds generated EUR 201 bln. worth of net inflow (after EUR 97 bln. of inflow back in 2011), at that, long-term funds – EUR 239 bln. (-64), among them bond funds – EUR 203 bln. (-16). Money market funds experienced net outflow in amount EUR 39 bln. (-33).[2]

5. The Investors of CII

As of the end of 2012, *legal entities – residents of Ukraine* still held the greatest share in collective investment institutions, which, however, narrowed from 81.4% to 80.0%, and in venture – from 82.6% to 80.8%. A significant growth occurred in the volumes of moneys invested by these investors into closed-end, in particular, venture funds (+UAH 8 284.56 mln. and +UAH 8 110.95 mln. respectively), whilst an aggregate value of investments into open-ended and interval CII decreased.

However, by the pace of investments' growth into closed-end funds, national companies lagged behind *citizens of Ukraine*, and into venture ones – behind foreign legal entities as well. The value of investments of the population into CII increased by UAH 1 242.38 mln., including into venture ones – by UAH 1 154.55 mln., and their share – from 3.3% to 3.9% and from 1.6% to 2.4% accordingly. Without taking into account venture funds, natural persons-residents held 23.8% of CII net assets (after 23.0% in Q3).

The amount of *foreign citizens'* investments into all funds increased, owing to an active behavior of foreign legal entities, by UAH 3 029.90 mln., and into venture ones – by UAH 3 261.49 mln. At that, their share within the aggregate market NAV grew from 15.3% to 16.1%, and in venture one – from 15.8% to 16.8% (Table 5).

[2] See EFAMA Quarterly Statistical Release Q4 2012.

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Table 5.

CII NAV breakdown by the categories of investors, % of NAV, as of 31.12.2012

Funds	Legal entities		Natural persons	
	residents	non-residents	residents	non-residents
Open-ended	42.48%	11.02%	46.36%	0.15%
Interval	54.51%	0.85%	44.57%	0.07%
Closed-end non-venture	69.87%	6.89%	23.10%	0.14%
All (non-venture)	***69.18%***	***6.86%***	***23.83%***	***0.14%***
Venture	80.83%	16.79%	2.35%	0.03%
All (including venture)	**80.01%**	**16.09%**	**3.85%**	**0.04%**

Thus, legal entities-residents still prevailed in all CII types, with exception of open-ended ones, by investments volumes. Citizens of Ukraine, just like during two preceding quarters, were cutting investments into open-ended and interval funds and increasing – into closed-end and, particularly, venture funds.

In Q4 2012 in ***open-ended CII*** capital outflow continued and was accompanied by a decrease of the value of investments of all categories of participants, and, particularly, of *natural persons-residents and legal entities-non-residents* (by UAH 9.93 mln. and UAH 8.72 mln. respectively). The share of the former narrowed from 46.9% to 46.4%, and of the latter – from 14.7% to 11.0%. Under such circumstances, in open-ended funds the share of *legal entities-residents* continued increasing – from 38.2% to 42.5%, although the amount of the net assets belonging to them decreased amolst at the level of Q3 (-UAH 0.40 mln.).

In ***interval CII*** a certain outflow occurred owing to *companies-non-residents*, the total amount of investments into which decreased more than twice (-UAH 1.77 mln), and the share – from 1.9% to 0.9%. In connection with that, despite the value of investments of all other investor categories also decreased, in particular, of *national companies* – by UAH 4.30 mln., the share of the latter broadened from 54.2% to 54.5%. And the share of *natural persons-residents* in this type of funds on the whole broadened from 43.9% to 44.6%.

Closed-end CII (with exception of venture ones) in Q4 increased an aggregate value of moneys of residents – both *legal entities and natural persons* (+UAH 178.30 mln. and + UAH 100.55 mln. respectively), which, whilst non-residents, in particular, foreign companies, were cutting investments into these funds, expanded the share of national investors from 68.4% to 69.9% and from 22.2% to 23.1% accordingly.

All in all, that could be a result of Ukrainian citizens and companies continuing to grow investments into closed-end funds, and a sharp change of tactics on the part of foreign legal entities that were withdrawing moneys from these CII, although these changes to a certain extent were affected by the difference in the number and make-up of funds that filed reports.

6. The Asset Structure of CII

In Q4 2012, general trends of the structure of the aggregate portfolios of different CII types by the **types of instruments** registered in two preceding quarters for open-ended and venture funds remained mostly unchanged, whilst generally changed for the rest of closed-end, as well as interval, CII.

A common feature for all sectors, with exception of open-ended funds, was a decrease of the share of ***moneys on bank accounts***, and for all, including venture ones, broadening of the share of ***«other» assets***[3] and narrowing – of ***securities***. In open-ended CII narrowing of the share of stock market instruments (from 58.8% in Q3 to 55.7% in Q4) has been observed for the third quarter in a row, and in venture ones – for the second (from 32.3% to 31.2%). For interval and closed-end (with exception of venture) funds the trend has changed compared to the preceding quarter. In interval CII the share of securities narrowed for the first time since Q3 2011 and comprised 74.8% (after 76.2% in the preceding quarter). Closed-end CII held 58.2% of their assets in stock market instruments (after 61.2% in Q3). Finally, in all CII, with exception of venture ones, their share went down to 58.4% (from 61.4%) (Chart 11).

[3] "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).

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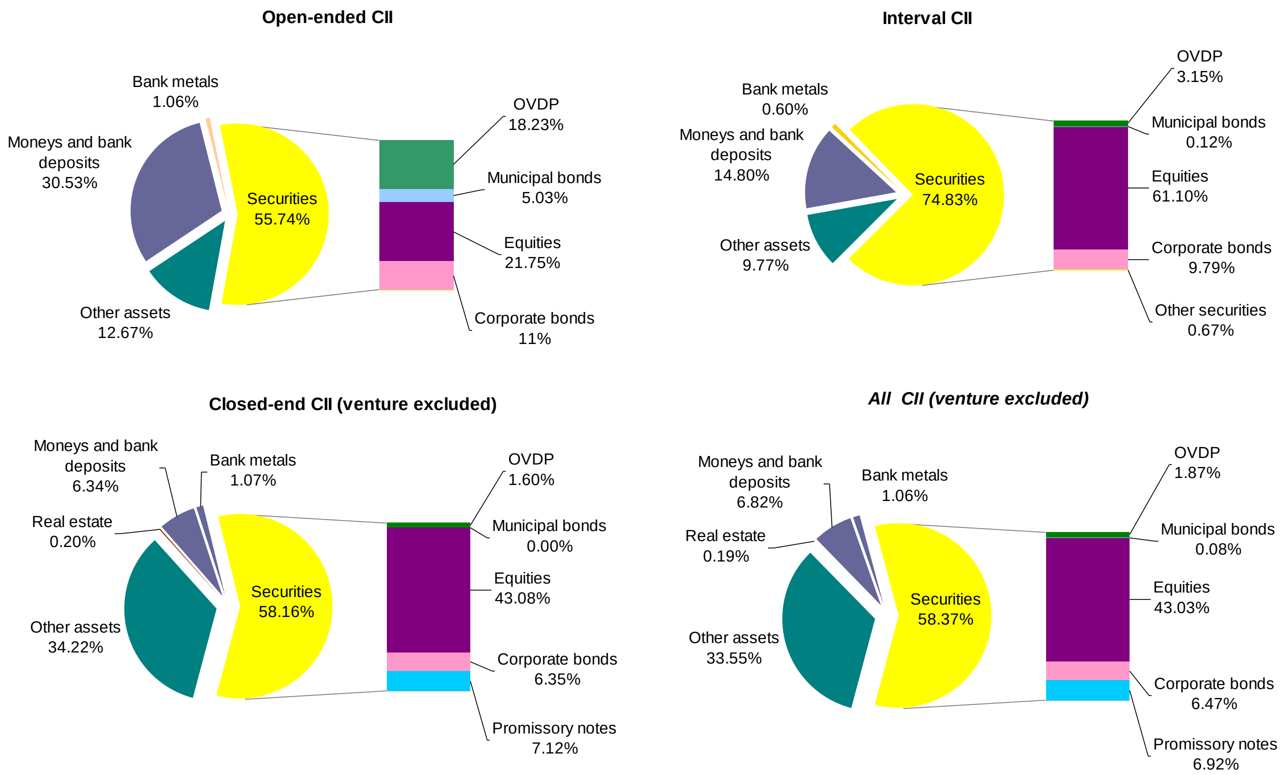

Chart 11. Non-venture CII asset structure, by the types of funds as of 31.12.2012

In monetary terms, assets held in securities decreased in all sectors of funds, with exception of venture funds (altogether – by UAH 31.16 mln. over Q4 after +UAH 617.09 mln. in Q3).

In ***open-ended CII,*** the amount of corresponding investments went down by UAH 16.16 mln. (after –UAH 13.39 mln. in Q3), including in *equities* – by UAH 13.24 mln. As a result, even under conditions of a decrease of these funds' investments into *corporate bonds* by UAH 1.08 mln. and moneys on bank account by UAH 1.92 mln., the respective shares of these assets within the aggregate portfolio of open-ended funds increased. The only instrument that, with an overall NAV decrease and cuts of investments into all asset types, managed to expand its presence in these CII on the whole, were *bonds of internal state loan* ("OVDP") (+UAH 1.30 mln.).

In ***interval and closed-end CII*** the assets in securities declined by UAH 7.69 mln. (after +UAH 7.98 mln.) and UAH 7.32 mln. (after +UAH 623.53 mln.) respectively. Notably, in both sectors the greatest decrease occurred in the investments into OVDP and corporate bonds: all in all, in interval funds as of 31.12.2012 there was UAH 3.20 mln. less OVDP, and UAH 2.68 mln. less corporate securities compared to 30.09.2012. In closed-end funds there were UAH 15.43 mln. less OVDP and UAH 173.52 mln. – corporate bonds. Under such circumstances, even at a decrease of the aggregate value of *equities* in interval CII (-UAH 1.22 mln.), their share within the aggregate portfolio of this type of funds expanded. In closed-end funds, an opposite situation was observed: assets held in equities grew by UAH 47.86 mln., despite their share within the aggregate portfolio narrowed.

The key changes in the structure of the aggregate CII portfolios by the types of funds in Q4 2012 were as follows:

Open-ended funds

Increase of the share of investments into:

- OVDP – from 15.6% to 18.2%;
- moneys and bank deposits – from 28.4% to 30.5%;
- "other assets" – from 11.7% to 12.7%;
- corporate bonds – from 10.2% to 10.7%.

Decrease:

- equities – from 26.7% to 21.8%;
- municipal bonds – from 6.2% to 5.0%;
- bank metals – from 1.2% to 1.1%.

Interval funds

Increase:

- “other assets” – from 7.9% to 9.8%;
- equities – from 59.3% to 61.1%.

Decrease:

- OVDP – from 4.9% to 3.2%;
- corporate bonds – from 11.0% to 9.8%;
- moneys and bank deposits – from 15.3% to 14.8%.

Closed-end (with exception of venture) funds

Increase:

- “other” assets – from 31.6% to 34.2%;
- bank metals – from 0.3% to 1.1%.

Decrease:

- corporate bonds – from 8.3% to 6.4%;
- equities – from 44.8% to 43.1%;
- moneys and bank deposits – from 6.7% to 6.3%;
- OVDP – from 1.8% to 1.6%.

An aggregate portfolio of ***venture CII*** in Q4 2012 followed earlier established trends as regards key investment directions. For instance, the share of *securities* continued to narrow (from 32.3% to 31.2%), whilst the share of *equities* once again broadened, just as the share of *“other” assets* (Chart 12).

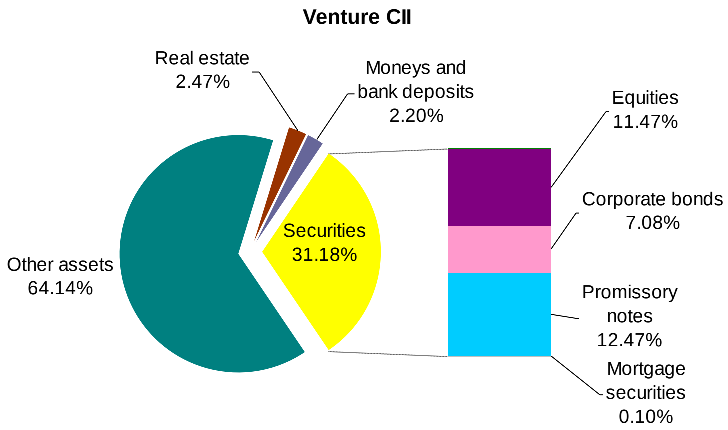

Chart 12. Venture CII asset structure as of 31.12.2012

In monetary terms, over the quarter these CII accumulated UAH 3 255.72 mln. more ***securities*** (after +UAH 575.85 mln. in Q3). However, “other” assets grew even faster – by UAH 11 270.80 mln. (after +UAH 3 065.13 mln.).

Within securities, an aggregate value of *equities’* portfolios grew (+UAH 2 865.94 mln. after +UAH 658.88 mln. in Q3) and, unlike in the previous quarter, – of *corporate bonds* (+UAH 1 015.09 mln. after –UAH 541.96 mln.). Thus, venture funds partially refocused on bonds after *promissory notes* (-UAH 471.62 mln. after +UAH 682.81 mln. in Q3), though an increase of investments into corporate bonds, just as into bank deposits, was accompanied by a certain decrease of these asset types’ shares within the aggregate portfolio of venture CII due to a more active growth of “other” assets, as well as investments into equities.

A material decrease occurred in the assets in the form of *mortgage securities* (-UAH 74.56 mln. after -UAH 155.91 mln. in Q3 2012), and the assets in the form of *savings certificates* disappeared at all (-UAH 68.50 mln. after –UAH 123.50 mln.).

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

- "other assets" – from 62.8% to 64.1%;
- equities – from 10.6% to 11.5%.

Decrease:

- promissory notes – from 14.3% to 12.5%;
- moneys and bank deposits – from 2.4% to 2.2%;
- mortgage securities – from 0.2% to 0.1%;
- savings certificates – from 0.05% to 0.00%;
- corporate bonds – from 7.11% to 7.08%.

Equities became **the greatest, by an aggregate value of investments thereto, group of securities** within the aggregate portfolio of all CII as of the end of 2012, having outperformed promissory notes, the investments into which were cut by venture funds. In spite of Q4 stock market decline, in the conditions of an increasing number of venture funds that invested mostly in shares during the quarter, the total value of these investments continued to grow – by UAH 2 899.35 mln. to UAH 21 422.94 mln. Finally, the share of CII investments into equities within the stock instruments included into aggregate assets broadened from 38.3% to 41.5% (Table 6).

The total value of *promissory notes* within portfolios went down by UAH 355.27 mln. to UAH 18 784.01 mln., and their share within the makeup of financial instruments – from 39.5% to 36.4%.

Corporate bonds remained third by their popularity with CII, having grown their respective value and share within the aggregate investments into stock market assets – by UAH 837.82 mln. up to UAH 10 951.50 mln. and from 20.9 to 21.2% accordingly.

The rest of the securities accounted already for less than 1% of CII assets (0.9% vs 1.3% in Q3), though an aggregate value of investments into derivatives somewhat increased (+UAH 0.48 mln.). The greatest decline occurred in the investments of funds into mortgage securities, savings certificates and OVDP – by UAH 74.56 mln., UAH 68.50 mln. and UAH 24.54 mln. respectively. At that, as of 31.12.2012, savings securities were absent within CII assets, insofar as venture funds got rid of them in Q4, and the rest of closed-end CII – even back in Q1.

All in all, CII securities portfolio over last three months of year 2012 grew by UAH 3 224.57 mln., and since year beginning – by UAH 7 294.82 mln. (including in equities – by UAH 5 100.63 mln., in promissory notes – by UAH 1 269.92 mln., and in corporate bonds – by UAH 1 167.86 mln.).

Table 6.

Value breakdown of CII aggregate securities portfolio, by the types of instruments, as of 31.12.2012

Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	21 422 944 548	41.50%
Promissory notes	18 784 011 944	36.39%
Corporate bonds	10 951 497 658	21.22%
Internal state loan bonds (OVDP)	273 039 340	0.53%
Mortgage securities	151 525 789	0.29%
Treasury bonds	14 996 294	0.03%
Municipal bonds	12 398 209	0.02%
Other	*5 457 535*	0.01%
Total	**51 615 871 319**	**100.00%**

Owing to an increase of the amount of investments into *equities* in closed-end funds, their aggregate value within the consolidated portfolio of ***open-ended, interval and closed-end (with exception of venture) CII*** in Q4 grew by UAH 33.40 mln. to UAH 4 856.91 mln., which comprised 73.7% within the structure of these funds' investments into securities (in Q3 – 72.9%) (Table 7).

A drastic decline in the assets in the form of corporate bonds in all types of funds, and, particularly, in closed-end ones (-UAH 177.28 mln.) and a commensurate increase of promissory notes within assets (+UAH 136.35 mln.) brought the latter to the second place within an aggregate CII portfolio (venture CII excluded). For instance, the share of promissory notes expanded from 9.7% to 11.9%. Bonds narrowed their respective share from 13.7% 11.1%.

On the whole, funds' investments into all types of securities decreased, in particular, into OVDP – by UAH 17.32 mln. (from 3.5% to 3.2%).

All in all, an entire portfolio of financial instruments within CII (with exception of venture ones) assets in Q4 lost in value UAH 31.16 mln., and over 2012 – added UAH 572.88 mln. (including in promissory notes – by UAH 247.31 mln., in corporate bonds – by UAH 122.52 mln., and in equities – by UAH 113.12 mln.).

Table 7.

Value breakdown of non-venture CII aggregate securities portfolio, by the types of instruments, as of 31.12.2012

Security type	Aggregate value of the security in CII portfolios, UAH	Share in the aggregate CII securities portfolio
Equities	4 856 911 294	73.72%
Promissory notes	781 129 868	11.86%
Corporate bonds	730 035 822	11.08%
Internal state loan bonds (OVDP)	210 808 978	3.20%
Municipal bonds	8 712 316	0.13%
Other	*796 486*	*0.01%*
Total	**6 588 394 765**	**100.00%**

7. The Rate of Return of CII

Owing to losing stock market dynamics in the first month of the quarter and a subsequent uncertain growth continuing until 2012 end, over Q4 CII generated mixed performance results, which varied greatly depending on the type of funds.

This time *open-ended CII*, which in the previous quarter had led by an average rate of return on investments (+0.4%), demonstrated the poorest result (-4.5%), whilst *closed-end CII* generated +5.86% on average (after +0.3%). *Interval funds* kept their performance indicator virtually unchanged (-2.0%) (Chart 13).

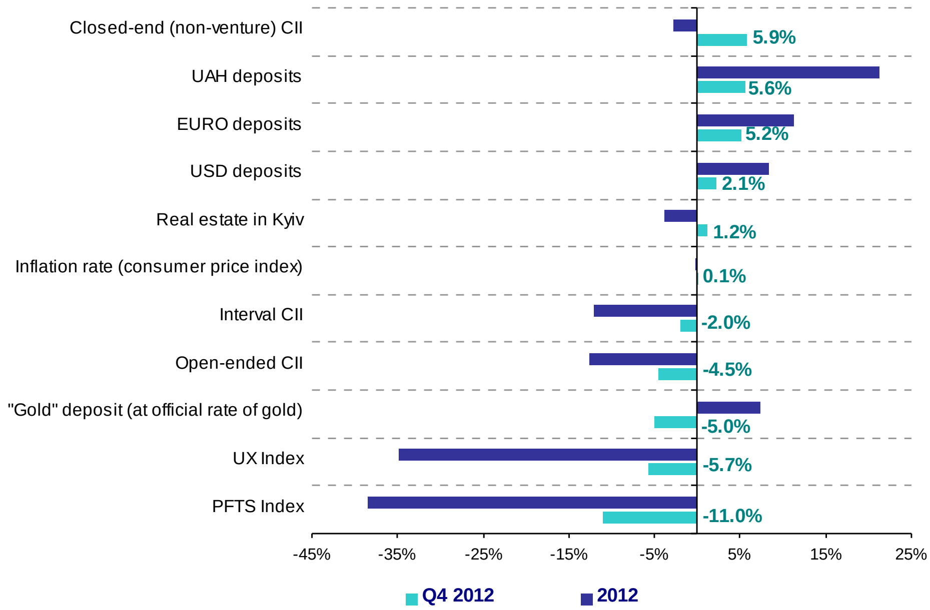

Chart. 12. Average rates of return – CII, deposits, equity indexes and inflation rate in Q4 2012 and over 2012[4]

[4] CII rates of return are calculated based on the reporting data for Q3 2012 (40 open-ended, 34 interval and 140 closed-end CII) and Q2 2012 (38 open-ended, 35 interval and 147 closed-end CII) - see Ranking of the rates of return of open-ended, interval and closed-end funds. The inflation rate provided is based on the State Statistics Committee data (Consumer price indexes – 2012). Return on real estate is calculated based on Kyiv real estate value data (average) sourced from sites: http://www.domik.net, http://100realty.ua, http://realt.ua.

It is worth noting that among ***open-ended CII*** there were three funds whose certificates got more than 40% cheaper, and three more – more than 10% cheaper, as well as one fund whose securities' value increased by more than 10% over the quarter. Without taking into account the above extreme values, an average rate of return of open-ended CII reached -0.58%. These funds' rates of return were ranging between -8.8% and +5.6%.

All in all, the number of funds that demonstrated growth among open-ended CII in Q4 went down to *15 out of 40* (after 27 out of 40 in Q3).

Among ***interval CII***, certificates of one fund lost above 50%, two more funds generated rates of return below -30% and above +20%. The rest of the funds belonging to this type earned return between -9.2% and +9.5%, with an average rate of return equal to -0.1%. *14 out of 35 funds demonstrated growth,* and one more – an absence of changes in the value of securities (after 16 out of 34 in Q3).

In the sector of ***closed-end CII*** 5 funds earned above +60%, and one – below -50%, as a result, the value of investments for the rest of these CII comprised -0.7%. 58 out of 143 funds ensured positive changes (after 60 out of 140 in Q3), and one fund did not change its securities' valuation.

In case one evaluates CII sectors on the whole, those were only closed-end funds that managed to demonstrate results that outperformed most profitable *deposits in Hryvnia (+5.6%)* and *deposits in euro (+5.2%),* however, 2 open-ended, 2 interval and 20 closed-end CII generated higher indicators in Q4.[5]

Since the beginning of 2012, an average rate of return in all CII sectors was negative, but even the indicators of open-ended and interval CII, which turned out to be the lowest (below -12%), demonstrated a three times tinier decline of NAV on average compared to equity indexes (-35%/-39%). And, although 20 open-ended CII demonstrated losses by more than 10% over year, 9 funds focused primarily on conservative investment strategy succeeded in generating rates of return commensurate to those on deposits (+8.6-14.9%).

Should we consider diversified publicly placed CII by asset classes (based on asset structure), it is worth noting that equity funds in Q4 generated on average -8.9%, and over an entire year 2012 – -9.1%. For bond funds these indicators comprised +1.3% and +2.7% respectively, for mixed funds – -5.0% and -2.5%, and for other funds – -2.4% and -3.2%.

8. Resume

The way the situation in the stock market of Ukraine was developing in Q4 2012 was not favorable for the majority of public, specifically open-ended and interval investment funds, but did not prevent a further growth of closed-end collective investment institutions, in particular, venture CII.

As a negative impact of the dynamics of stock market indicators intensified, ***the key trends of Ukrainian CII market in Q4 2012*** somewhat weakened compared to Q3: increase of the number of AMC and CII and asset value under management continued, but was concentrated mainly in the venture sector; in the meanwhile, an outflow of capital from open-ended funds increased; in open-ended CII continued, and in the rest of sectors resumed a decrease in the assets in securities, in particular, in equities; an average rate of return of open-ended funds declined, though the one of closed-end ones – went up.

The number of AMC in Q4, with expected strengthening of the regulatory requirements to entering the market, grew faster than in the preceding quarter – by 9 companies, and turned out to be the highest during the year (353 AMC). The pace of increase of ***the number of registered, as well as recognized, CII*** accelerated due to venture funds that comprised 79.6% of all CII. Entering the market by one open-ended fund as such that reached compliance with the standards could be regarded as a positive move.

The assets and NAV of CII, just as in Q3, during the last three months of 2012 grew owing to an entire sector of closed-end funds. Over Q4, an aggregate asset value of all CII increased by UAH 14 978.16 mln., having sped up growth from +3.9% to +10.5%, and as of 31.12.2012 reached UAH 157 201.12 mln. The net asset value comprised UAH 139 260.58 mln. (+UAH 12 556.83 mln, +9.9% vs +4.9% in Q3). The share of venture funds within the market NAV grew up to 93%.

[5] It is necessary to take into consideration CII liquidity, in particular, in case of open-ended type, which allows 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 (up to 3% per annum). In the meantime, CII rates of return calculated do not take into account possible commissions and other losses incurred at entering/ exiting funds, as well as taxation of investment income.

Capital outflow from open-ended CII in October-December accelerated from UAH 7.59 mln. to UAH 9.83 mln., having approached Q2 indicator when the stock market dropped by 32%. Aggregate sector NAV decrease accelerated as well – from UAH 6.31 mln. to UAH 19.18 mln. At that, a significant share of one fund within the aggregate outflow (during Q4 – about 45%) could be regarded as a relatively positive factor here. Furthermore, net inflow into several other open-ended CII further increased – from UAH 1.47 mln. in Q3 to UAH 2.29 mln. in Q4.

The investors of CII in Q4 2012, just as previously, consisted mainly of legal entities-residents (69.2% in CII, with exception of venture funds, and 80.0% – venture funds included). They remained primary investors in all CII sectors, with exception of open-ended ones (42.5%). In the latter, under conditions of capital outflow, the share of the key investors – citizens of Ukraine – somewhat narrowed (up to 46.4%), and so did the share of foreign companies (up to 11.0%). Investments of natural persons-residents continued to grow in closed-end and, particularly, venture CII (up to 23.1% and 2.35% respectively). Finally, the share of Ukrainian citizens within CII on the whole grew to almost 3.9%. Non-residents increased their presence solely in venture funds (up to 16.8%), which brought to an increase of their share within the aggregate CII NAV up to 16.1%.

The asset structure. The value of assets held in equities in October-December declined in open-ended and interval funds, and grew in closed-end ones. Simultaneously, these securities' share within asset structure narrowed in all CII sectors, with exception of interval ones, where investments into government and corporate bonds decreased more. A decrease also occurred in the assets held by open-ended and closed-end (with exception of venture ones) CII in corporate debt securities, and by closed-end (including venture ones) funds – in domestic government bonds.

Venture CII also notably decreased volumes of investments in promissory notes, and, in the meantime, increased – in equities, corporate bonds and "other" assets.

All in all, as of 31.12.2012, securities comprised between 31.2% in venture and 55.7% in open-ended CII, and up to 74.8% – in interval ones. Moneys and bank deposits in open-ended funds grew up to 30.5%.

The rates of return of CII, and public funds in particular, in Q4 2012 were heavily affected by mostly downward stock market dynamics. The number of CII that ensured growth of their securities' value decreased, at that, the greatest decrease occurred among open-ended funds (15 out of 40, or 37.5% after 67.5% in Q3). Rates of return varied greatly even within the same sector: open-ended CII demonstrated between -49.0% and +13.1%, interval – between -55.3% and +22.1%, closed-end – between -54.3% and +370.7%. Finally, on average, open-ended funds' securities got 4.5% cheaper, and interval ones' – 2.0% cheaper, whilst closed-end ones – added 5.9% in value. At that, not taking in consideration extreme values of some CII that differed significantly from the rest of market indicators, an average rate of return for all CII sectors (with exception of venture ones) ranged between -1% and 0%.

Among CII classes by asset structure, equity funds in Q4 demonstrated -8.9%, bond funds – +1.3%, hybrid funds – -5.0%, and other funds – -2.4%. Since the beginning of 2012, average losses in open-ended CII reached -12.6%, in interval – -12.1%, and in closed-end ones – -2.8%, which is at least three times higher than the national equity indexes' performance.

Additional information on CII on the UAIB website:

- Funds' Daily Data (publicly offered CII):
  Open-ended Funds
  Interval Funds
  Closed-end Funds

- Analytical reports and statistics of publicly offered CII:
  Weekly
  Monthly

- CII Rankings:
  CII – by the types of funds
  CII – by the classes of funds

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