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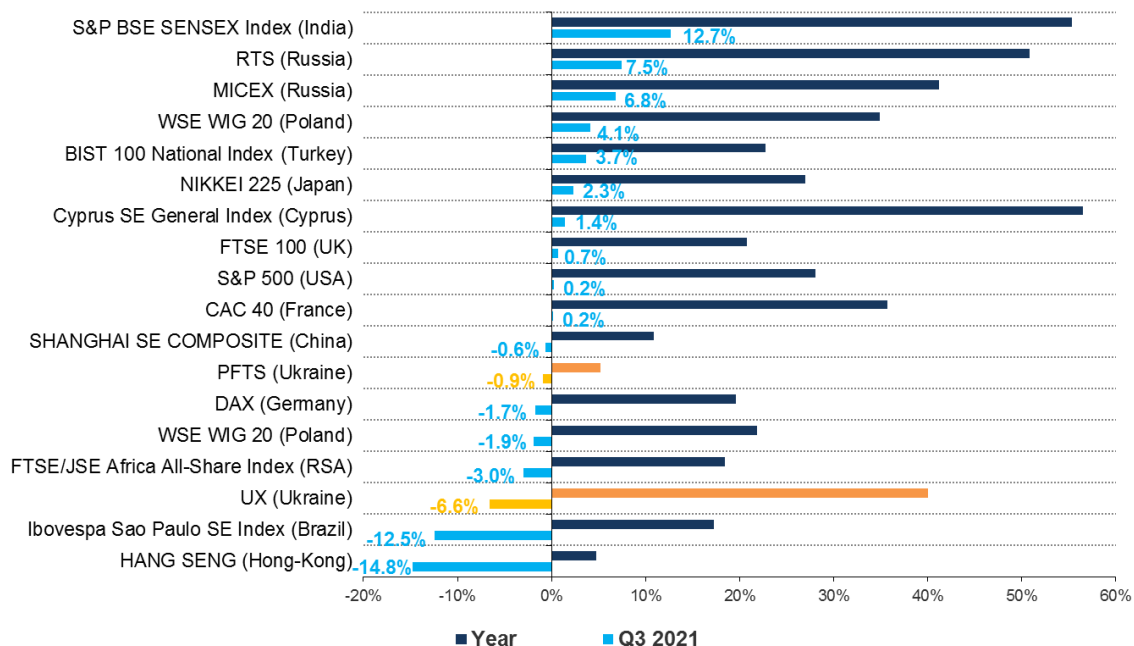
1. Stock Markets: Ukraine and the World

In the third quarter of 2021, the world's stock markets showed mostly growth, but in September most of them fell - for a number of markets the fall was significant enough to end the quarter with a negative result. At the end of the quarter, investors' optimism about the rapid recovery of the global economy from coronary crisis losses, including its major "engines" in Asia, Europe and North America, covering markets practically from early 2021, was changed by prevailed fears of inflation, which is too high and may persist for a long time, as well as of possible future "lockdowns" due to another round of disease because of a new and more aggressive version of the SARS-CoV-2 virus (Delta). Significant gaps in supply chains, with an excess of demand over supply, including the energy sector, intensified by geopolitical aggravations in Europe and in the world, created a worrying picture for market participants in the late of the 3rd quarter. Under these conditions, most of the **developed stock markets** in the 3rd quarter as a whole grew, but more moderately than in the 2nd one, and some of them underwent adjustments. The index of the broad stock market in the USA of the S&P 500, after a mostly upward movement in July-August, in September mostly fell and during this month almost returned to the level as it was at the beginning of the 3rd quarter (+0.2%, after +8.2% in the 2nd quarter). The industrial DJIA suffered more: it lost 1.9% in July-

September (after +4.6%). Since the beginning of the year and over the past 12 months, american indices have risen almost at the average level for developed markets.

The leading EU markets had almost identical results to the american ones in the third quarter: *in France* the key index added 0.2% (after +7.3% in the 2nd quarter), *in Germany* it lost 1.7% (after +3.5%). Both in the first nine months of 2021 and in the last year, French blue chips grew more, not only than the developed markets on average, but also the emerging markets (+16.4% and +35.7%, respectively). At the same time, German stocks showed weaker dynamics and were below average growth rates in both market categories on a year-to-year basis.. *The British key index* for the 3rd quarter grew more than its continental European counterparts (+0.7%, after +4.8% for the 2nd quarter), but from the beginning of 2021 and for the last 12 months it added less than developed markets on average, and, unlike other leading European markets, at the end of September remained below its peak in mid-January 2020 (by more than 7%).

In July-September 2021, *Japanese blue chips* grew by 2.3% (after -1.4% in the 2nd quarter) and were one of the leaders of growth among developed markets in the last year as well (+27.0%). Equities of leading companies in *Poland* grew the most in this category¹: +4.1% in the 3rd quarter (after +14.4% in the 2nd quarter).



*Chart 1. Dynamics of the world stock indices in Q3 2021**

** Based on the data of exchanges and Bloomberg Agency. Ranking in the chart is based on quarterly figures.*

¹ Index providers include FTSE Group, STOXX to developed markets.



Emerging markets in July-September 2021 generally continued to outpace developed markets and had an average positive return on stock indices: +0.8% (after +5.3% in April-June). At the same time, some of them also decreased significantly during this period.

The Indian market was the leader among these markets in the 3rd quarter, it grew by 12.7%, and was also among the top three in terms of growth since the beginning of 2021 and for the last year (+23.8% and +55.3%, respectively).

Russian blue chips in the RTS dollar index added 7.5% in the 3rd quarter (after +12.0% in the 2nd one), and the ruble MICEX - +6.8% (after +8.5%), amid rising oil prices by 5.0% and the ruble against the US dollar by 0.5%. In the first 9 months of 2021, the RTS index grew the most among the indicators of world stock markets - by 28.1%.

Over the last 12 months, *Cypriot equities* were in the lead in terms of rate of return: +56.5%, although this year they added only 17.1%, and in the 3rd quarter - only 1.4% (after +9.4% in the 2nd quarter).

Brazilian stock market was among outsiders in the 3rd quarter, falling by 12.5% (after +8.7% in the 2nd quarter) and entering a negative zone by the dynamics since early 2021, amid the catastrophic consequences of the pandemic for the country's demographics and economy.

In July-September 2021, the key stock index of mainland *China* adjusted by 0.6% (after +4.3% in the previous quarter), while in *Hong Kong* the stock market fell by 14.8% (after +1.6%). Finally, in the nine months since the beginning of the year, the "offshore" Hong Kong market has lost almost 10%, while the "continental" market has added almost 5%. Over the past 12 months, both markets have had positive dynamics, but both have lagged behind the averages of both emerging and developed markets.

The Ukrainian stock market in July-September 2021 had a downward trend, with local upward adjustments. Both major stock indices fell, albeit with significantly different rates, than emerging markets (on average). *The index of Ukrainian equities of UX* for the 3rd quarter of 2021 fell by 6.6% (after +4.6% for the 2nd quarter), being at the bottom of the list along with key Brazilian and Hong Kong indices. *The PFTS index*, which is not calculated daily, lost 0.9% (after +2.7%). As for the dynamics from the beginning of 2021 and for the last 12 months, at the end of September the Ukrainian blue chips according to the UX index exceeded the average results of

emerging markets (and even more the results of developed markets): +13.3% and +40.0%, respectively, although their annual growth slowed down compared to June (from 43.9%).

The set of equities included in both Ukrainian indices did not change in the 3rd quarter: the UX index included 6 equities (3 energy companies, two machine-building companies and one bank); PFTS index - 7 equities: in addition to 5 from the UX index (from all three sectors), there were also one another machine-building company and one telecommunications company.

The decline of stock indices of the Ukrainian market in the 3rd quarter of 2021 was accompanied by a relative weakening of Ukraine's **macroeconomic indicators** in this period, in particular, economic growth, in the context of the continuation of the COVID-19 pandemic and against the background of a gradual leveling of the effect of the comparison base with the corresponding period of the last year. Thus, according to the operative assessment of the State Statistics Committee, Ukraine's real GDP in the 3rd quarter of 2021 increased by 2.4% year on year (after +5.7% in the 2nd quarter, according to updated data).

The consolidated balance of payments of Ukraine in the 3rd quarter of 2021 generally deteriorated both compared to the 2nd quarter and to the same period of the last year (-3.5%), and was negative. According to the data of the National Bank of Ukraine, in January-September 2021, the current account deficit amounted to USD 1.4 billion. (Last year for this period the surplus was USD 4.6 billion), although excluding reinvested earnings there was a surplus of USD 3.8 billion. (USD 3.7 billion in the first nine months of 2020). Exports of goods from Ukraine both in the 3rd quarter and in January-September 2021 as a whole, recovered relatively faster than imports, and in the service sector – it was vice versa. In general, the trade balance - as well as the current account as a whole - for the 3rd quarter and January-September 2021 was negative, although it decreased in the 3rd quarter by 39%, and for 9 months – by more than a quarter in annual terms. The share of EU countries in total exports increased from 31.9% in January-September 2020 to 37.0% in January-September 2021².

At the same time, the financial account of the balance of payments during this period was almost balanced: a net inflow of USD 75 M (for 9 months of the last year - a net outflow of USD 5.1 billion). In January-September 2021, the net inflow of foreign direct investment was USD 4.8 billion - due to reinvestment of

² Review of the balance of payments of Ukraine:
https://bank.gov.ua/files/ES/State_m.pdf



revenues of USD 5.2 billion (for 9 months of 2020, the net outflow amounted to USD 0.4 billion).

This dynamics was facilitated, in particular, by the fact that the official exchange rates of hryvnia against the US dollar and the euro in the 3rd quarter of 2021 continued to grow: +4.2% and +7.0% respectively (after +2.6% and +1.3% in the 2nd quarter). From the beginning of the year, the hryvnia added 8.5% and 15.0% against the US dollar and the euro, and at the end of September - 8.5% and 9.7%, respectively, leveling the previous losses. Nevertheless, consumer inflation continued to grow amid renewed consumer demand and limited supply, rising production costs, etc., as a result of which the CPI accelerated from 9.5% per annum in June to 11.0% in September 2021³.

To curb inflation and accelerate its return to the target range, the NBU raised its discount rate twice during the third quarter, from 7.5% to 8.0% in July and to 8.5% in September. Thus, the real rate remained negative, which maintained the stimulating nature of monetary policy.

Ukraine's international reserves for the 3rd quarter of 2021, according to the NBU, increased by USD 0.3 billion (in equivalent), or by 1.1% (after +5.2% in the previous quarter, and amounted to USD 28.7 billion at the end of September. At that, in September they decreased from a nine-year high in August (USD 31.6 billion) by 9.2% - mainly due to peak payments on the government's external liabilities in this period (USD 2.6 billion)⁴. Reserves were replenished during the quarter by exceeding the supply of currency over demand in the interbank foreign exchange market, which allowed the NBU to buy it into reserves, as well as due to foreign exchange earnings in favor of the government from the placement of OVDP. Thus, according to the results of the 3rd quarter, Ukraine's international reserves provided exactly 4 months of future imports, which is sufficient to meet Ukraine's obligations and current operations of the government and the NBU.

During July-September 2021, the volume of domestic state bonds placed by the Ministry of Finance of Ukraine during weekly auctions was almost twice lower than in the 2nd quarter

(-47.7%) and almost a quarter less than in the same period last year - UAH 50.2 billion in equivalent. Of these, UAH 40.6 billion - on hryvnia bonds, and OVDPs in foreign currency - USD 347 M and only EUR 8 M. Decreased borrowing - together with lower demand from

investors - was due, in particular, to a slight increase of OVDPs' rates, while inflation rose sharply and reduced the positive real rate on "short" securities (one-year) from about 1.5% at the beginning of July to 0.5% at the end of September. Proceeds from the placement of OVDPs in the third quarter were still used mainly to service and repay previous issues of domestic and foreign liabilities. As a result, the volume of OVDPs in circulation decreased further by UAH 15.8 billion (-1.6%, after -2.1% in Q2 2021). Demand for OVDPs was maintained only by local retail and corporate investors. The former increased their investments in these securities by UAH 3.8 billion, or by 21.0% (after 18.3% in the second quarter), to UAH 21.9 billion at the end of September. Finally, their share in the total value of all OVDPs in circulation in the 3rd quarter increased from 1.8% to 2.2%. In the 3rd quarter, resident legal entities, including professional participants in the capital markets (excluding banks), increased their total public debt financing by UAH 3.1 billion or by 6.5% (after a decrease of 10.8% in the 2nd quarter). up to UAH 51.4 billion, or up to 5.2% of the total volume of OVDPs in circulation (from 4.8% in June).

Non-residents reduced their OVDP portfolios by UAH 12.2 billion or by 11.0% (after a 6.2% increase) to UAH 98.4 billion. The share of these investors in OVDP in circulation decreased from 11.0% in June to 10.0% in September. Banks continued to reduce their government bond assets for the second quarter in a row, but they still held about 51% of OVDP in circulation.

Despite a further reduction in the supply of OVDP and a significant outflow of investment in them from non-residents and banks, the demand for these securities from domestic investors, in particular, citizens, remained in the 3rd quarter of 2021. In addition, they remained the main investment instrument in the domestic capital market, particularly for institutional investors.

As for corporate securities admitted to trading on the stock exchanges of Ukraine, their number has increased insignificantly at this time - mainly due to unlisted Eurobonds of non-resident companies with main business in Ukraine. Finally, ***the stock exchange capital markets in Ukraine in the 3rd quarter of 2021 increased both in the number of securities issues admitted to trading and in the total volume of trades.*** The consolidated stock exchange list of all current stock exchanges in July-September increased by 1.5% (after -2.4% in the previous quarter) and included

³ <https://bank.gov.ua/ua/news/all/komentar-natsionalnogo-banku-schodovnyvny-inflyatsiyi-u-veresni-2021-roku>

⁴ <https://bank.gov.ua/ua/news/all/mijnarodni-rezervi-stanovili-287-mlrd-dol-ssha-za-pidsumkami-veresnya>

488 issues (Table 1). "Listing" - securities in stock exchange registers -- instead decreased by another 2.6% (after -5.0%) - due to *state bonds (OVDP)*, the number of issues of which on the stock exchanges decreased by six (-3.3%, after -3.7%) . In July-September, the number of "listed" corporate bonds increased by one - to seven (+16.7%), which was still less than at the beginning of 2021 and a year ago. Finally, as at September 30, 2021, *OVDPs*

lost some weight among all instruments in the stock exchange listing: 94.5% (after 95.3% in June).

Two issues of equities that remained on the stock exchange registers at the end of September accounted for slightly more than 1%. In addition, there were slightly more than a hundred equities and hundreds of bonds of companies admitted to trading outside the "listing".

Table 1. Dynamics of the regulated stock market of Ukraine in Q3 2021

Indicator / Date	30.09.2020 (Q3 2020)	31.12.2020 (Q4 2020)	30.06.2021 (Q2 2021)	30.09.2021 (Q3 2021)	Q3 2021 change	YTD change	Annual change in Q3 2021
Number of securities in the lists of stock exchanges, including*:	523	511	481	488	1.5%	-4.5%	-6.7%
Number of securities in the registers (listing) of stock exchanges, including:	204	206	191	186	-2.6%	-9.7%	-8.8%
State bonds (OVDP)	189	192	182	176	-3.3%	-8.3%	-6.9%
municipal bonds	2	2	0	0	x	-100.0%	-100.0%
corporate bonds	9	8	6	7	16.7%	-12.5%	-22.2%
equities**	3	3	2	2	0.0%	-33.3%	-33.3%
CIF equities	1	1	1	1	0.0%	0.0%	0.0%
investment certificates	0	0	0	0	x	x	x
Trading volume on all stock exchanges in total, UAH M, incl.:	82 471.3	96 334.3	87 147.4	113 301.9	30.0%	17.6%	37.4%
State bonds (OVDP+OZDP)	80 440.2	94 429.2	85 543.5	112 460.4	31.5%	19.1%	39.8%
municipal bonds	1 705.3	1 510.1	712.3	6.4	-99.1%	-99.6%	-99.6%
corporate bonds	239.5	182.2	664.1	636.7	-4.1%	249.5%	165.9%
equities	69.8	189.1	190.9	184.0	-3.6%	-2.7%	163.6%
investment certificates (and CIF equities)	3.3	2.0	8.0	2.3	-71.6%	10.8%	-31.9%
derivatives (excl. state derivatives)	10.2	18.7	28.7	11.9	-58.4%	-36.2%	17.5%

Sources: data on securities in lists of stock exchanges and trading volumes – NSSMC, stock exchanges; calculations – UAIB.

* As a whole, as at 30.09.2021, in the lists of the SE of Ukraine, including the "listing", there were 190 issues of government bonds, 10 - municipal bonds, 110 - corporate bonds (including 15 Eurobonds), 116 issues of equities (including 21 – foreign ones), 8 - equities of CIF, 27 - investment certificates of UIF and 28 - derivatives.

** Including depositary receipts of MHP S.A.

The total quarterly volume of trades on all exchanges in the 3rd quarter of 2021 increased by almost a third and amounted to UAH 113.3 billion. The positive dynamics in the third quarter accelerated to + 37.4% (from + 11.3% in the 2nd quarter).

However, the quarterly increase of trading in July-September was due exclusively to state bonds (+31.5%, after -26.4% in April-June). Accordingly, the share of all exchange transactions with domestic and external state bonds (OVDPs and OZDPs) increased: from 98.2% in the 2nd quarter to 99.3% in the 3rd (maximum at least in the year 2021). At that, the volume of transactions with OZDP decreased by almost 2/3 (after a 3-fold increase in the 2nd quarter), and its share - from 1.0% to 0.3% of the total volume of exchange trading.

Trade in *municipal securities*, after a surge of trade in the 2nd quarter (by 11 times) in July-September 2021 decreased by 99% to UAH 6M.

The volume of exchange transactions with all types of corporate securities and derivatives in the 3rd quarter of 2021 decreased. Agreements with *corporate bonds* (including bonds of foreign corporate issuers) amounted to UAH 637 M, i.e. by 4.1% less than in the second quarter, although compared to the 3rd quarter of last year the volume of such transactions increased by almost 166%.

Trade in *equities* of Ukrainian residents and foreign enterprises decreased by 3.6% in the 3rd quarter compared to the second quarter (UAH 184M), but increased by almost 164% over the year.

In the third quarter, the volume of transactions with *certificates and equities of domestic investment funds (CII)* decreased by 71.6% (after a 2-fold increase in the second quarter), to almost UAH 2 M. In annual terms, it also decreased, but by less than a third.

2. Asset Management Industry

2.1. Number of AMCs, ANPFs, CIIs, NPFs and ICs with assets under AMC management

In the 3rd quarter of 2021, the industry of asset management of institutional investors and administration of pension funds in Ukraine continued to grow in terms of quantity and value. At the end of September, there were six more **operating asset management companies** than in June - a total of **313** (Chart 2). During this quarter, according to UAIB, 9 new AMCs were created, 3 - ceased their activities.

The number of **non-state pension fund administrators (ANPFs)** did not change during this period: 19. Among them, as before, there were 6 companies that carried out exclusively NPF administration activities, the rest combined it with asset management.

In July-September 2021, **54 new CII** were registered, all of which were venture ones, including 52 - corporate funds, that is, immediately after registration, they were recognized as valid (they reached the standard for the minimum volume of assets).

The total number of **formed CII, which reached the minimum asset standard**

("established" funds), increased for the 16th consecutive quarter and at the end of September 2021 amounted to **1624** (+64 funds, or +4.1% for the 3rd quarter).

The number of **non-state pension funds (NPFs) managed by AMC** as at September 30, 2021, according to the submitted reports, was **55** (excluding the NBU corporate fund), including 46 open, three corporate and six professional ones. NPF assets were managed by 33 AMCs.

The number of **non-state pension funds (NPFs) managed by AMC** as at September 30, 2021, according to the submitted reports, was **55** (excluding the NBU corporate fund), including 46 open, three corporate and six professional ones. NPF assets were managed by 33 AMCs.

The number of **insurance companies (ICs) that transferred their assets to AMC management** in July-September 2021 did not change, as did the number of AMCs that provided such services: one such company managed the assets of **two** ICs.

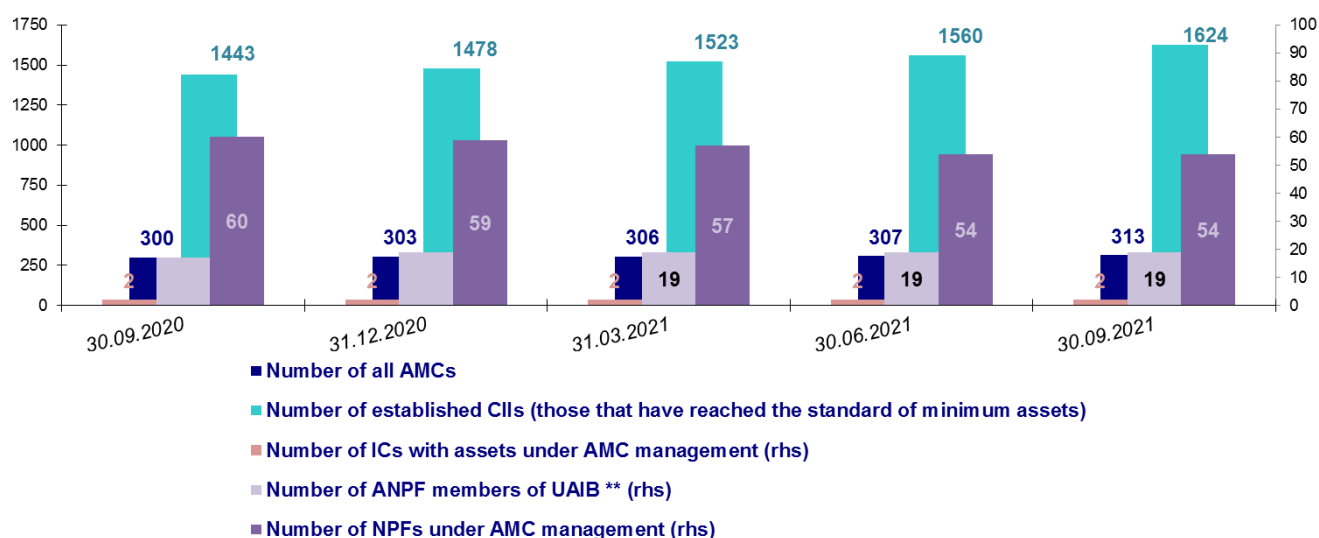


Chart 2. Dynamics of the number of AMCs, ANPFs, CIIs, NPFs and ICs with assets under AMC management in Q3 2020-2021

2.2. Assets under management, CII NAV and Net Flow of Capital in Open-Ended CII

The total assets of all institutional investors in AMC management in the 3rd quarter continued to accelerate growth - to 6.4% (from 6.2%) for three months - and as at September 30, 2021 reached

UAH 507,806 M. From the beginning of the year these assets grew by 19.6%, and for the last 12 months at the end of September - by 26.9% (after +26.6% in June).

CII assets under management, including those that have not yet reached the minimum assets ratio, also grew by 6.4% in the third quarter and by 27% for the last year. As at September 30, 2021, they amounted to **UAH 505,498 M**.

The total assets of acting CIIs, which were managed by AMC and reached the standards (formed, "recognized" CII), at the end of September 2021 reached **UAH 496,066 M** (Chart 3). In the 3rd quarter they grew by 6.0% (as in the second quarter), from the beginning of 2021 - by 19.8%, and in the last 12 months in September - by 25.8% (after +26.1% in June).

Almost 98% of the growth of the value of assets of formed CII in July-September 2021 was provided by venture funds - including by increasing of their number. As at September 30, 2021, the total assets of *venture CII* amounted to **UAH 471,598 M**, which is by 6.2% more than in June.

Assets of other sectors of closed-end funds and assets of *open-ended CII* also increased, which after a

decrease in the 2nd quarter by 0.8% added 3.0% in Q3 2021. This was again largely due to capital movements in this sector, which were positive this time. The dynamics of these CII since the beginning of 2021 and for the last 12 months has remained extremely positive: over 61% and 77%, respectively. As at September 30, 2021, open-ended CII had **UAH 180 M** in assets.

In July-September 2021, **NPF assets managed by AMC** accelerated quarterly growth to 3.3% (from +2.8% in the 2nd quarter), but slowed down to 11.6% in September (from 13.7% in June). In the first 9 months of the year, they added 8.3% and as at September 30, 2021, they reached **UAH 2,120 M**.

IC assets under AMC management in the 3rd quarter of 2021 continued to grow - at an accelerated pace: +6.4% (after +4.8% in Q2 2021). From the beginning of the year they added 9.9%, and for the last 12 months at the end of September - 15.8% (after +12.1% in June) and as at 30.09.2021 amounted to almost **UAH 188 M**.

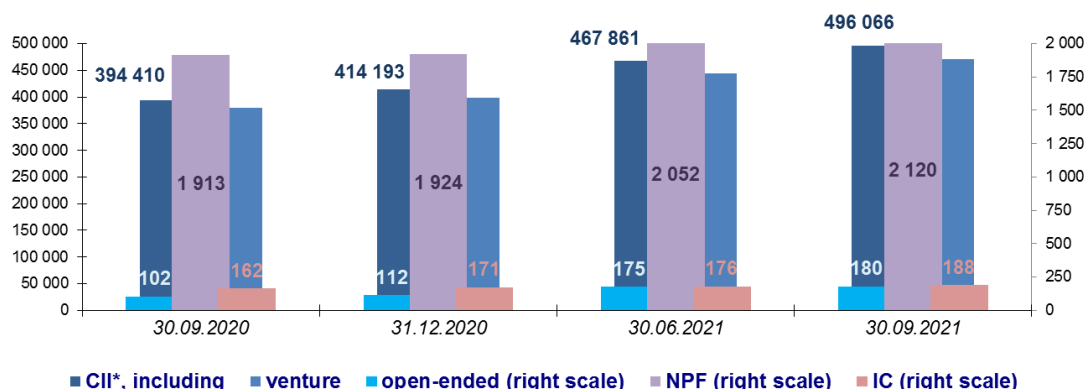


Chart 3. Dynamics of the value of assets under management in Q3 2020-2021, UAH M

The value of net assets of all formed CII as at the end of September 2021 reached **UAH 373,066 M**. In July-September, it accelerated the quarterly growth rate, but slowed down the annual growth rate: +5.0% in three months (after +4.5% in the 2nd quarter) and +20.5% in the last year in September (from +22.6% in June). For 9 months of 2021, the NAV of the formed CII added 15.8%.

Among the factors of quarterly growth - including the increase of the number of funds in the venture sector (+3.6% of reports). The NAV of *venture CII* in the 3rd quarter of 2021 grew almost twice as much as in the second quarter - by 5.2%, from the beginning of the year - by 13.7%, and for the last 12 months - by 18.7% and at the end

of September amounted to **UAH 349,344 M**, or almost 94% of total net CII assets.

Open-ended CII, among which the number of active funds remained unchanged during July-September 2021, grew by 4.9% of NAV during this period, and for the first 9 months of the year - by 61.4%. Annual growth slowed to 76.6% in September (from 88.7% in June). As at September 30, 2021, the net assets of the sector amounted to almost **UAH 179 M**. The growth of the sector's NAV was mainly due to the net inflow of investors' funds, which accounted for more than 2/3 of increase of NAV of these CIIs as a whole. The rest was determined by the positive revaluation of funds' portfolios in the sector during this period.



The total net movement of capital in open-ended CII in the 3rd quarter of 2021 returned to positive: UAH +5.8 M (Chart 4).

Net inflows into the sector from the beginning of the year remained positive - as well as the annual one, which slowed down to UAH 60.7 M at the end of September (from UAH +63.8 M in June).

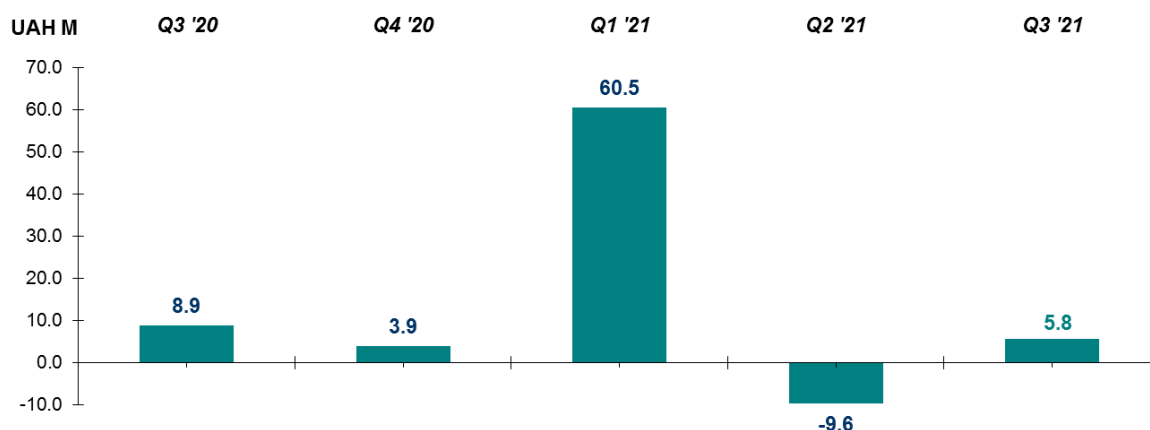


Chart 4. Net inflow/outflow of capital in open-ended CII in Q3 2020-2021

For more detailed information on the performance of asset management markets of CII, NPF and IC, see special UAIB reviews, which will be published on the website: http://www.uaib.com.ua/analituaib/publ_ici_quart.html

See additional and statistical information on the UAIB website:

- [The Ukrainian Fund Market in Figures](#)

For more information about UAIB please visit UAIB website.