



 **otp** *Capital*  
member of otp group

## Financial markets & investment strategy of OTP Capital

2008 became the real test for both world economy and national economies. Decrease of business activity and including of economy in the stage of recession took place in most regions of the world. If early the crisis mostly influenced European countries, USA and Japan, in the 4Q its consequences also felt export-oriented emerging markets of China, Russia, Brazil, India, South Korea. Reduced volume of production in the developed countries as well as decrease of volumes of retail consumption due to growth of unemployment and limitation of the bank loans, caused coming down of orders' amount in industries of emerging markets. First for long time the sovereign rating of Russia was lowered. The international rating agency S&P reduced rating of the country in reply to the decline of gold-value reserves, outflow of capital and decline of profits from an export.

The number of countries, despite arrangement do not strength trading protectionism achieved during G20 summit in November, takes actions designed to protect national producers: Russia and Ukraine increased import duties on cars, China reduced VAT for exporters, India prohibited the import for some types steel and wood materials, Vietnam increased duties on import of steel. Also some developed countries come running to the similar policy. France created the special fund in size of a USD 7,6 billion aimed to support domestic producers, the USA provides USD 17,4 billion for support American automobile producers. Government of Sweden also intends to provide financial support to automobile industry in size of USD 3,1 billion.

Domestic and international regulators continue to develop and provide programs aimed to stabilize banking sector. Central banks in December have been continuing to reduce base rates. The FED has adopted 0%-0.25% range for basic rate and declared that the credit programs financed at the expense of increased FED balance replace the policy of decreasing of basic rate, which was the basic instrument of FED till recently. Also central banks of Japan, Great Britain, Korea, Switzerland,

Hong Kong, Norway, Canada, Australia as well as European Central Bank. IMF in December adjusted USD 2.35 billion to stabilize the economy of Latvia. The EBRD declared providing first from the number of anti-crisis loans, aimed to ease economic recession for CEE countries.

Determinative factors for Ukraine in December were election of new speaker of Verkhovna Rada, creation of new political coalition, difficult process of approval of the state budget on 2009, devaluation of national currency and escalation of gas conflict with Russia. Ukrainian Stock market last month showed low trading volume. PFTS-index achieved 301,42 point by the end of the month, showing decrease by 74% per year.

For the market of mutual funds the most meaningful event in December became approval in second reading of changes to the Law of Ukraine "On institutes of mutual investment (mutual and corporate investment funds)", which soften requirement to diversification of investment funds' portfolio structure. New edition of the Law allows AMC to correct portfolio of low-risk investment funds and offer clients more effective instrument for saving their investments.

### OTP Classic

At the end of December assets of open-ended fund came to UAH 1.46 million. Cost of investment certificates of OTP Classic increased in December by 2.2%. Taking into account unstable economic situation deteriorated by "gas wars" investing in risk instruments looked inexpedient. As low-risky investment strategy of OTP Classic implies safety of investments, assets of the fund were invested mostly in fixed income instruments. As of the 1st of January 2009 more than 29% of NAV of OTP Classic was placed on deposits. Weights of equities and bonds were decreased to 19% of NAV and 49% of NAV accordingly. Additional diversification is ensured by presence of governmental, municipal and corporate bonds in portfolio of the fund. As for industry structure of the fund, securities of machine-

building industry lead in the portfolio.

In December equities of OJSC «Zakhidenergo» were sold from OTP Classic, therefore power industry was moved to the third place. Securities of retail traders take second position in portfolio of OTP Classic.

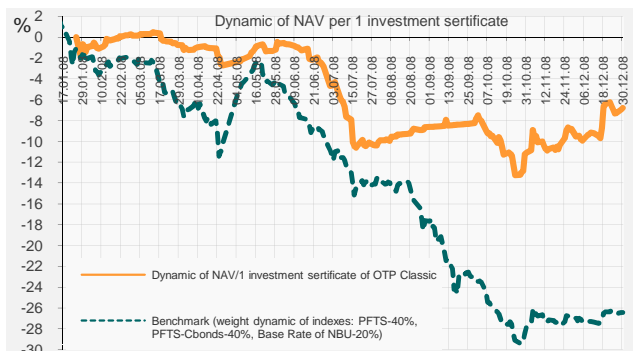
### OTP Balanced

NAV of OTP Balanced increased slightly in December (by UAH 50 thousand) and achieved by the 1st of January UAH 2.6 million. Increase of assets caused by both coming of new investors and positive monthly yield which achieved 2.5% in December. As well as in the open-ended fund there was small replacement of accents in portfolio fixed income instruments. Weight of bonds remained practically unchanged – 49% of NAV, weight of deposits was increased to 25%. The process of putting on the account of OTP Balanced stocks of OJSC «Stakhanovsky carriage-building plant» purchased during additional emission was completed in December. Also some part of securities of power companies was sold from the portfolio of the fund. Thus weight of equities in OTP Balanced decreased to 24.7% of NAV. As of the 1st of January securities of machine-building industry were leading in industry structure of OTP Balanced, also securities retail trading and telecommunication companies took significant position in fund's portfolio.

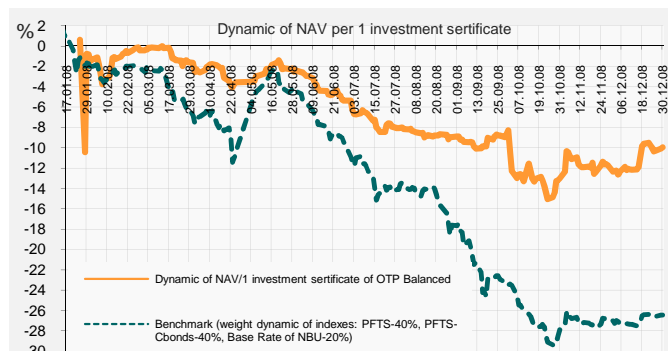
### OTP Dynamic

As of the 1st of January 2009 assets of the close-end non-diversified investment fund OTP Dynamic consist UAH 979 thousands. Using current situation at the market, portfolio managers continue to fill portfolio of the fund by equities with serious potential of growth, as the key task of OTP Dynamic investment strategy is maximal increase of the capital of investors. As of the 1st of January weight of equities was 32% of NAV of the fund. Weight of bonds in assets' structure of OTP Dynamic achieved 40% of NAV to the end of the year. As for industry structure of the fund securities of machine-building industry lead in the portfolio. Securities of OTP Dynamic are purchased at nominal value (UAH 1000 per 1 stock). Minimal investment to the fund is 50 stocks.

### OTP Classic



### OTP Balanced



# Monthly Investment View

December 2008



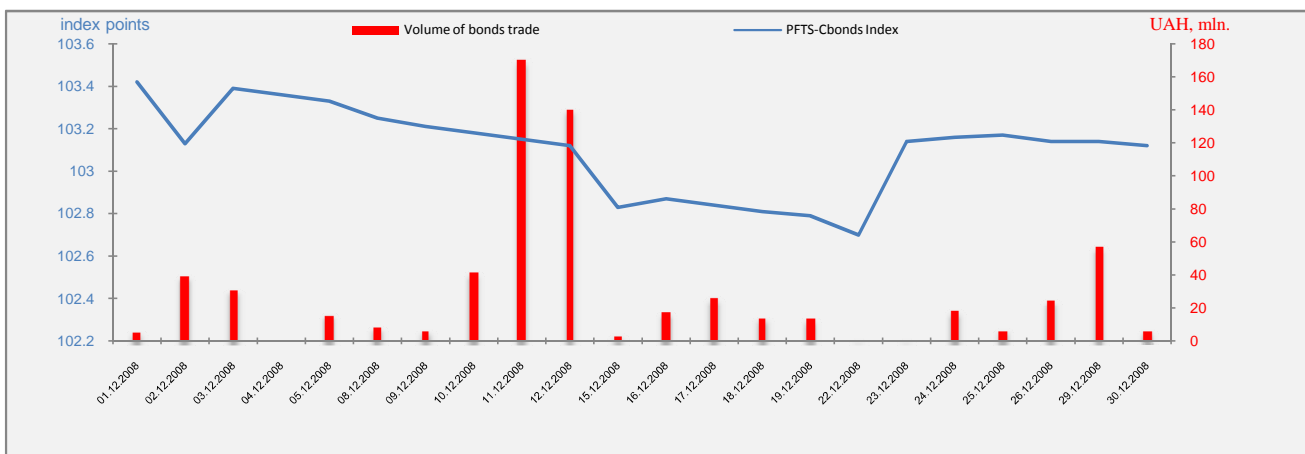
## Stocks

Trading volume on PFTS in December was three times less than November figure and achieved UAH 2.6 billion. Stock market showed insignificant activity of participants (2014 transactions were fixed during December) and low demand on securities. The total demand on equities achieved UAH 1.4 billion last month while volume of offered securities came to UAH 4.7 billion. Volume of transactions with equities (UAH 1.3 billion) was two times higher than analogical bonds' figure (UAH 649 million). Two large transactions were fixed with equities of OJSC «Khartsyzkyi trubnyi zavod» in amount UAH 900 million in December. Thus, the Company Metinvest B.V. (Netherlands) increased its share holding in

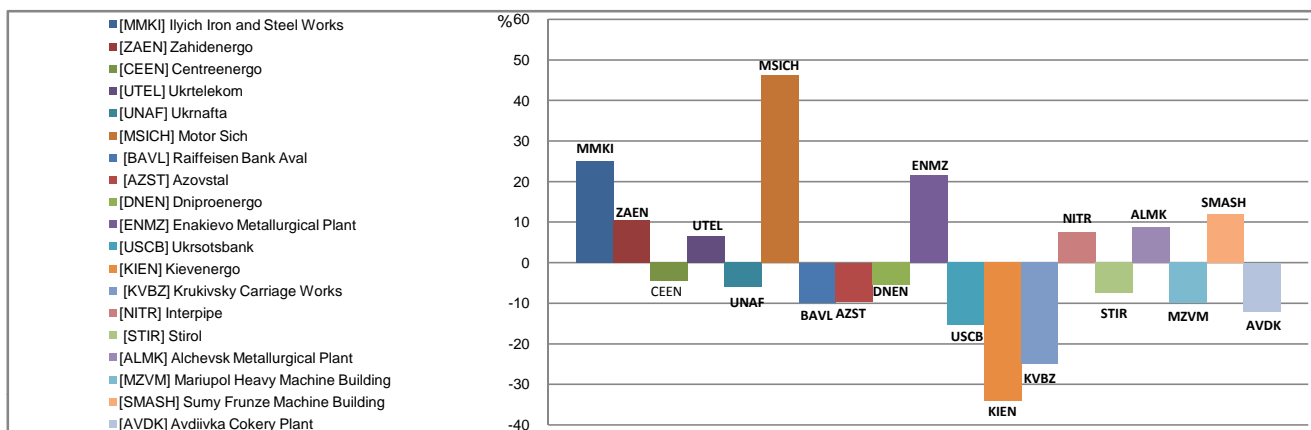
OJSC «Khartsyzkyi trubnyi zavod» from 84.7% to 91.8%. During December 2008 PFTS-index grew up by 4.07% and came to 301.42 index points. Annual trading volume on PFTS in 2008 consists UAH 45.98 billion comparing to UAH 32.2 billion in 2007. Among the representatives of PFTS-index basket most growth showed equities of OJSC «Motor Sich». Also securities of metallurgical companies grew up: equities of OJSC «Mariupolskyi metalurgiynyi kombinat im. Illicha» and OJSC «Enakievskyi metalurgiynyi zavod». Purchase quotations on their securities increased by 25% and 21.5% accordingly. The most significant disappointment of December

was concerned with equities of OJSC «Kievenergo» - quotations on these securities decreased by 35% because of conflict between NAK «Neftegaz» and Russian «Gazpromom». "Gas conflict" frightened off market players from operations with the securities of OJSC «Kievenergo». In December only one symbolic transaction in amount UAH 425 was fixed in regard to securities of this company. Maximal trading volumes in December showed securities of OJSC «Khartsyzkyi trubnyi zavod» (UAH 907.2 million, 8 transactions fixed), OJSC «Ukrnafta» (UAH 33.1 million, 120 transactions fixed) and OJSC «Prikarpattyaoblenergo» (UAH 28.6 million, 4 transactions fixed).

Dynamic of PFTS Index\*



Monthly dynamic of quotations on the purchase (best Bid) of stocks of enterprises, included in index basket of PFTS last month.\*



\* - chart based on data from www.pfts.com

# Monthly Investment View

December 2008



## Bonds and Deposits

Situation at the money market brought no new troubles in December.

Deficit of hryvna and growth of interest rates in the first half of month changed by surplus of money resources on the banks accounts at the end of month (UAH 16.5 billion as of the 3rd of December versus UAH 23.6 billion as of the 25th of December).

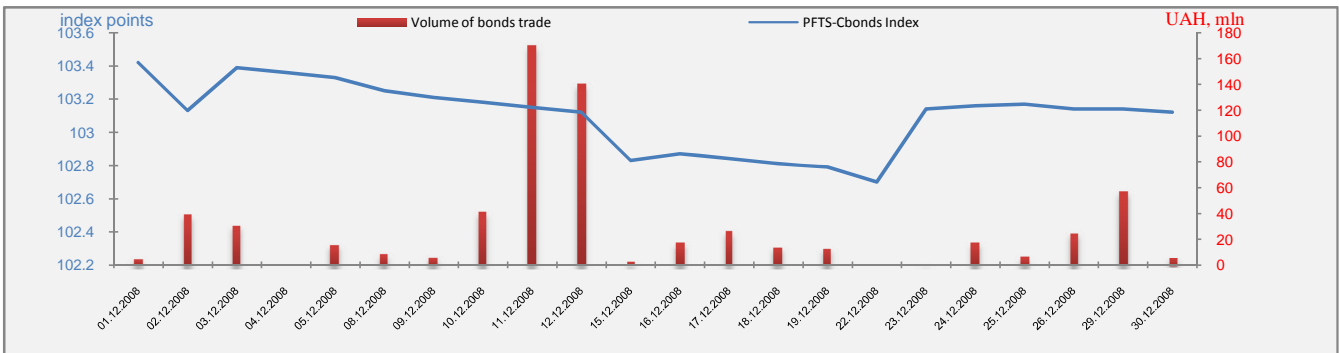
Such effect was brought by currency interventions and refunding of banks provided by National Bank of Ukraine. But general situation in the banking sector is still non-stable. Crisis of the trust takes place. And taking into attention competition between the banks which provide various actions to attract depositors, it is reasonable to access risk level carefully in regard to banks which offers the highest interest rates. There is opinion among market players that current interest rates are close to their highest level and will decrease in spring.

NBU intends to issue innovative deposit certificates for both individual and corporate clients. Certificates are planned to be issued in UAH with terms from 6 months to 3 years. Interest rates on these securities are not announced yet. It is expected that they could be a little less than market level. Thus National bank, giving to population possibility to place free money on the state accounts directly, wants to collect money surpluses and fill the state budget. It will be interesting to look at the results of these innovations. Situation at the money resource market determines development of bond market. It is possible to say now that the risk of non-fulfillment by bond issuers their liabilities considerably increased. Many companies faced with problems because of absence of banking loans, deficit of working capital, low purchasing power of population and decreasing production volume. The number of issuers increased coupon rates and provided technical

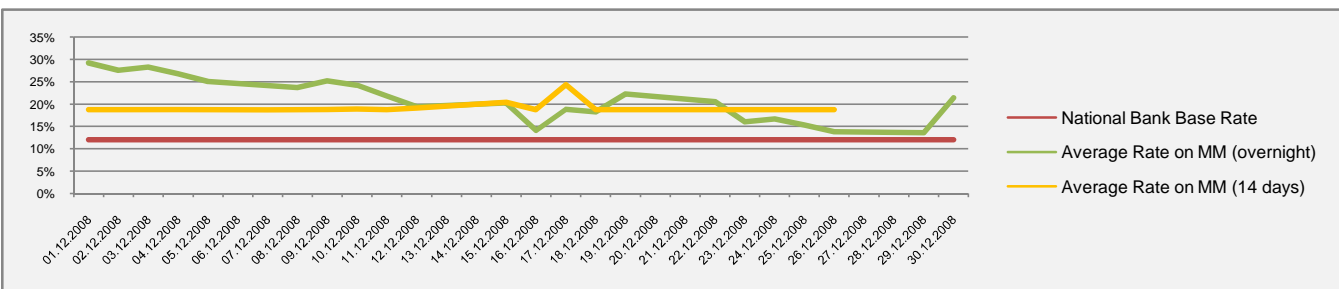
restructuring for bonds. But also, unfortunately, there were companies which rejected to fulfil their obligations to the holders of the bonds. The most significant risk of default takes place regarding bonds of banking and machine-building sectors as well as sector of retail trading. We forecast that probability of defaults in these segments will stay high in 2009.

Situation on the currency market was the most difficult in December. After public scandals regarding currency exchange rates, National Bank took some disputable actions aimed to stop devaluation of hryvna which lead to short-term stabilization of exchange rate UAH/USD at the level 7.00-7.30 on the banking market. Further complication of political situation, reduced economic activity and conflict with Russia regarding gas supplies reduced to zero NBU's efforts: hryvna continued falling.

Dynamic of PFTS-Cbonds Index\*



Dynamic of Rates on Money Market\*\*



\* - chart based on data from www.pfts.com

\*\* - chart based on data from www.finance.ua