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## CAPITAL MARKETS PROJECT

### New Investment Opportunities for Investment and Pension Funds Roundtable

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*Moderator*  
*International Advisor*

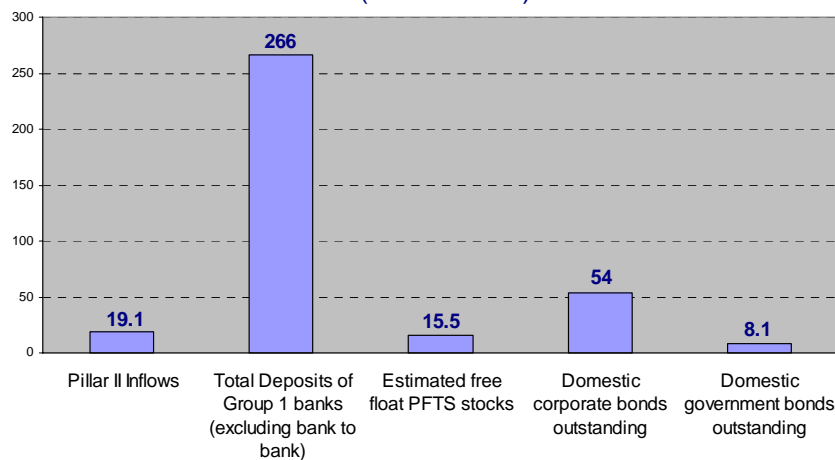
10:00 a.m. – 12:00 p.m., December 12, 2008  
National Academy of Sciences of Ukraine,  
55 Volodymyrska St., Sectional Hall, 3rd Floor



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## CAPITAL MARKETS PROJECT

Available Asset Classes of Ukraine Capital Markets  
(UAH billions)



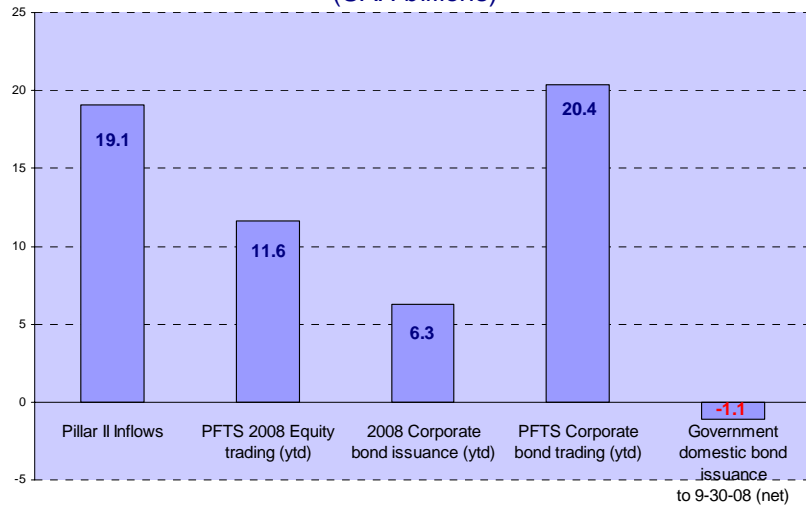
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Comparative Funds Flows of Ukraine Capital Markets  
(UAH billions)



Considerations for Investors

- ◆ Inflation
- ◆ Depth of market (to invest)
- ◆ Depth of market (to divest)
- ◆ Regulatory restrictions on asset classes



## Restrictions on Investments

Asset Class	Investment Cap	
Bank deposits and savings certificates	< 50% < 10% in one bank	
Government Debt	< 50%	
Municipal bonds	<10%	
Domestic Corporate Bonds	<20% (5% per issuer)	Draft: < 40%
Domestic Equities	< 40%	
Foreign government debt	<20 %	
Foreign securities (total)	<20%	
Domestic mortgage instruments		Draft: domestic mortgage-covered bonds: < 40%
Bank metals	<5% collectively	
All other assets		
Real Estate		



## Considerations for Issuers

- ◆ Lack of permanent capital
- ◆ Impediments to long term debt
- ◆ Exposure to currency risk
- ◆ High nominal interest rates



## Global Depository Receipt on a major Index (GDR)

**Issuer:** Trust

**Security:** [Custodial receipts]

**Assets:** Dow Jones Industrial Average components

**Amount:** Closed-end fund – with possibility of future closings.

**Legal obstacles:**

- Cap on asset class
- Currency license

**Discussion:**

- Excellent liquidity in underlying securities
- Closed-end fund more acceptable to government
- Global diversification
- Unwind option

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## Hryvnia Inflation Linked Securities

**Issuer:** Ministry of Finance

**Security:** Unsecured bonds

**Maturity:** Ten years (no put option)

**Coupon:** Set by auction

**Re-set provision:**

- (A) Adjusted by the amount of the State Committee on Statistics (SCS) Consumer price index for the previous year.
- (B) Adjusted to a constant value of the Euro, USD, Ruble or a basket.

**Legal obstacles:**

**Structural obstacles:**

Is the Ukraine CPI seen as an accurate measure of the buying power of the Hryvnia. Does the SCS have the credibility to maintain the CPI away from political pressure.

**Discussion:**

- (A) Reward for inflation risk – low nominal coupon. Provides incentive to government. By increasing the principal balance by the annual inflation rate investors are rewarded for taking the inflation risk.
- (B) Substantially broaden the investor pool to offshore investors.

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