

TRUSTORY

HEADLINES

- * Returns: €10 million in Q1 (page 2)
- * New Investment Strategy (page 3)
- * 29% more eTrusti accounts (page 3)
- * No. of services in Q1: 19,873 (page 4)

KEY FACTS

As of 31 March 2014

Share price	€1.2231
AUM	€948,271,784.21
Paid pensions in this quarter	€3.8 m
Contributors' accounts	453,516
Shares in issue	775,315,149.93

INVESTMENTS

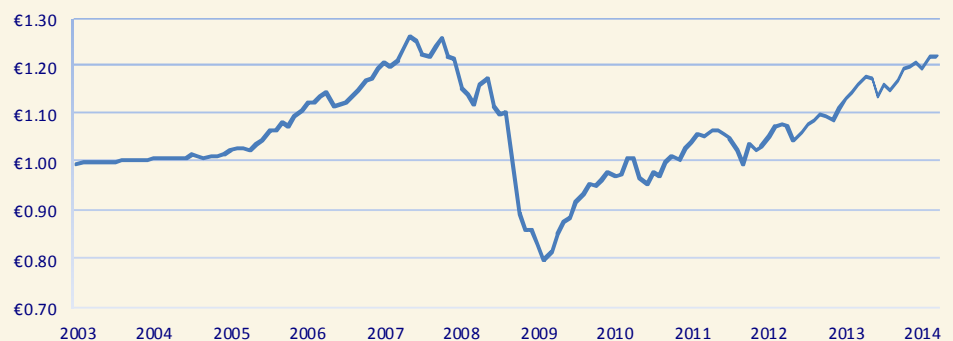
Share price:

January	-1.03%
February	1.90%
March	0.09%
Total net performance	0.94%

Gross return on investments:

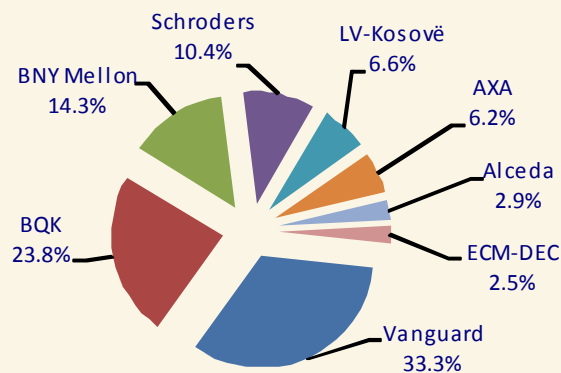
January	€-9.10 m
February	€17.78 m
March	€1.31 m
Total gross return	€9.99 m

KPST CUMULATIVE INVESTMENT PERFORMANCE SINCE INCEPTION



Period	1M	3M	YTD	1Y	5Y	Since Inception
Result	0.09%	0.94%	0.94%	4.97%	50.25%	22.31%

FUND ALLOCATION IN THE END OF QUARTER



PERFORMANCE OF INVESTMENTS FUNDS AND KOSOVO TB IN THIS QUARTER

1. VANGUARD	▲ +0.85%	4. AXA GILB	▲ +2.78%	7. TB - KOSOVO	▲ +0.38%
2. SCHRODERS	▲ +1.84%	5. BNY MELLON	▲ +1.24%		
3. ECM-DEC	▲ +1.71%	6. ALCEDA	▲ +2.88%		

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€10 MILLION FROM INVESTMENTS IN Q1

Gross return on KPST investments in the first quarter (Q1) of 2014 was almost €10 million. By the end of Q1 share price reached €1.2231, which is 0.94% higher compared to €1.2117 as was the price at the end of 2013. Meanwhile, assets under management increased by €35 million during this period, reaching a total of €945 million. Increase in assets under management, in addition to the investment return of €10m, was also due to new contributions which for Q1 were €30.2 million. On the other hand KPST paid out €3.8 million worth of benefit payments, withheld fees worth €1.2 million and refunded €0.03 million.

Influential factors

Although the percentage of return is relatively modest, 0.94%, it is justified when taking into account the global economic environment. Problems with the economic development in Asia and negative performance for the quarter in the equity market in its two main centres, China and Japan, in addition to the tension occurring in Ukraine between USA and Russia, and the considerable potential this tension carried towards the global economy, were intimidating and refraining for investors. Generally this quarter is considered as “pale” compared to the performance of the previous quarter, and only the quantitative easing that continued in US, with the same measures announced also in EU and Asia, were the stimulating factors. Despite the fact that world’s developed economies are showing signs of stability and economic growth, the negative performance of emerging markets is affecting the balance in the global financial markets.

KPST investments in January resulted with negative performance of -1.03%, mainly due to the impact of instability of main Asian economies. February brought recuperation and rise in performance of investments by 1.90%, which is a result of stimulating policies in Japan and Europe. The result might have been higher if the Ukraine crisis did not take place. March was concluded with 0.09%, a

0.94%

Return on investments in Q1

positive value which was only reached in the last days of the month, when Ukraine crisis showed signs of a temporary tranquillity.

Performance by the asset managers

This quarter was more specific for the performance of KPST asset managers. All managers concluded the quarter with a positive performance, and the financial result of the value of investment returns, as seldom, did not differ much among portfolio investments. This was mainly due to the positive performance resulted from financial instruments in the markets of developed countries where the investments of KPST are mainly concentrated.

None-the-less, the main contributor to the investment returns this quarter was again the investment in equities through the portfolio managed by Vanguard which was able to benefit from the continued growth of markets in developed countries. Close to this performance was the portfolio of BNY Mellon, allocated globally with the majority in equities and fewer in bonds of states and corporations, convertible instruments and cash and others. Not far from the above were also the performances by Schroders, concentrated in bonds, and AXA, in global inflation-linked bonds. Alceda’s portfolio, focused in European bonds with the aim to balance risk among categories of assets, and ECM’s portfolio focused in the European credit market, were symbolically in the positive performance territory, slightly affected by the insecurity still prevailing in the Eurozone. Kosovo T-bills have a pre-assessed interest rate and as such this investment does not depend from external factors that may impact the return.

Table 1: Investment performance in Q1 2014 and placements at the end of the quarter

Manager/Entity	Investment class	Allocation (in Euro)	Gross return (in Euro)
Vanguard	Equities	316,204,394.91	2,864,145.77
BNY Mellon	Absolute Return	135,384,246.25	2,244,651.99
Schroders	Bonds	98,149,981.58	1,770,137.70
AXA	Global Inflation Linked Bonds	59,082,867.97	1,653,302.33
Alceda	Absolute Return	27,764,878.28	778,248.68
ECM	Credit markets	23,802,458.68	428,232.42
Kosovo Treasury Bills	Treasury bills	62,797,294.33	248,234.30
	Total	723,186,122.00	9,986,953.19

KPST TOWARDS A NEW INVESTMENT POLICY

Despite the fact that the previous investment policy has proved to be very successful, as the increase in the share price was 40.8% since its adoption in 2009; due to the rising insecurity in the world from high national debts, slow growth and low inflation rates, and in addition the slowing of growth in emerging markets, the Board has recognised the need to evolve its investment principles and policies, which were adapted in order to serve at least for the next five year horizon. Due to this the Governing Board of KPST, assisted by the Management, during the Q1 managed to carry out the biggest part of the process for implementing the new investment strategy. This will cause the shifting of €280 million to mutual funds of new investment managers being selected. Out of these over €200 million are to be financed by cash at CBK.

Taking into account that the main objective of KPST investments in the long term is to first preserve and second increase the capital of contributors, in both nominal and real terms, the New Statement of Investment Principles of the Board has placed the Consumer Price Index of Kosovo as the benchmark against which the performance of KPST

€280 mln

Assets that will move on by Investment Strategy change

investments will be measured. New Investment Policy Guideline (IPG) recognises the fact that no investment portfolio is able to gain return without undertaking a certain dose of market (financial) risk and that no portfolio can be completely or partly insulated from the market risk. New IPG recognising the fact that there should be an equilibrium amongst the contributors who are approaching retirement and the ones who are not, calls for a new policy which involves a prudent yet not excessive portion of allocation to long-term assets which are expected to yield higher returns and have higher volatility, such as equities; combined with a larger portion of allocation to investments with expected lower volatility than equities and more stable income. You may read the full text of Investment Manual in:
http://trusti.org/Dokumentet/Anglisht/SIP_20131213_eng.pdf.

THE NUMBER OF eTRUSTI USERS INCREASED BY 29%

The number of users of eTrusti electronic service increased by 29% during this quarter. From 23,865 users that were recorded at the end of 2013, in the last three months this number has reached 30,712. The higher number of users to eTrusti, which KPST has been offering for five years now, appears to have been influenced by the latest TV campaigns undertaken by KPST during this period. In the last two years there is a constant increase

in contributors seeking information on their account. A considerable contribution to this has been the wider use of smart phones enabling the users to take a picture of their identification documents (ID card, passport, driving license) and send them to KPST for ID verification much easier than before.

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR 2013 PUBLISHED

KPST has prepared the Annual Report and Financial Statements for the year 2013 which can be accessed through the link: <http://trusti.org/index.php/en/annual-reports>. Annual Report 2013 has undergone major changes both visually and content-wise compared to previous years. Nevertheless all main data on KPST activities during 2013 can be found there including comparisons with the previous years. In addition to the annual report the financial statements were also published; they are separate for

Operations and Pension Assets, with both prepared in accordance with the International Financial Reporting Standards. Financial Statements include the opinion of the professional external auditor who this year gave an unqualified opinion. This opinion evaluates that all financial records of KPST have been correctly presented and do not contain any materially incorrect statements, either due to errors or fraud.

19,873 SERVICES PROVIDED DURING THIS QUARTER

Client relations officers of KPST have provided 19,873 services to the clients during the Q1. Printing of individual account statements continues to be the most requested activity by contributors, making up to 70% of provided services. The second activity is the activation of online accounts, i.e. eTrusti, with 16% and update of addresses with 7%. Approval of benefit applications, replying to questions sent through webmail and contacting the employers make up the rest of the services provided. Compared to previous

year there is an evident increase in the provided services. In 2013 total number of services was 49,486 or 198 services per working day, whereas in the Q1 on average there were 331 services provided per working day. According to this the number of daily services provided is higher for 67% compared to the previous year. It should however be noted that the first quarter of the year is the period when contributors usually ask for more services than during the rest of the year.

€62.8 MILLION INVESTED IN KTB

KPST investments in the Treasury Bills of the Government of Kosovo (TBK) consisted of €62.8 million by the end of Q1; an 18% increase from €53 million in the preceding quarter. New investments in TBK during this quarter were €21.2 million, whereas €11.6 million matured. At the end of Q1 KPST held such assets from five auctions, where the maximum investment was €17.8 million and the minimum €3.4 million. Investments in TBK were 6.6% of assets under management, or 8.7% of invested assets. With regard to investments in global financial markets KPST did not undertake such

investments considering that it is waiting for the

€62.8 m

Investments in Kosovo T-bills

conclusion of the selection process for new open-end funds as part of the New Investment Policy. The only investments, conditionally, were the rebates of managers Vanguard and AXA, or €96 thousand in total.

€3.8 MILLION BENEFIT PAYMENTS

During Q1 the amount transferred to bank accounts of beneficiaries reached €3.8 million. 79% of this value was paid to beneficiaries reaching the retirement age (803 retirees), 19% was withdrawn by inheritors of 240 deceased contributors, and 2% went to beneficiaries of disability pension (41 retirees). Compared to the same period of last year (Q1 2013) the value of pay outs increased by 31% from €2.9 million. Meanwhile for the same period of the current

year the number of beneficiaries has dropped considerably. In Q1 2013 number of withdrawn accounts was 1,919, or for 44% higher than the number of withdrawn accounts in the first quarter of this year. This is due to the fact that a year ago the value of accumulated contributions was less than at present and also the share price at the end of this quarter was for 5% higher than a year ago.

DELIVERY OF INDIVIDUAL ACCOUNT STATEMENTS COMPLETED

Post of Kosovo has notified KPST that on 20 March 2014 it completed the delivery of individual account statements to contributors. According to report by the Post 92.09% of statements were successfully delivered (or 379,971), whereas the remaining part of 32,557 were not delivered. The reason for not delivering these statements was due to invalid contributor addresses on KPST records. KPST calls on all contributors who did not receive the account statement

to get into contact with KPST by e-mail or by phone. In the envelope containing the statement, KPST this year has attached a questionnaire with the aim of understanding the perception of KPST and contributor's opinion of KPST and its services. Despite the fact that delivery of questionnaire was free of charge only a symbolic number of questionnaires until now have reached KPST through the Post of Kosovo.