

TRUSTORJA

HEADLINES

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- * Assembly approved A.R. (page 3)
- * Novelty in retirement apply (page 4)
- * Acc. statements distributed (page 5)

KEY FACTS

As of 30 June 2013

Share price	€1.1405
AUM	€803,277,493.71
Paid pensions in Q1	€2.8 mln.
Contributors accounts	431,137
Shares issued	704,300,863.44

INVESTMENTS IN Q2

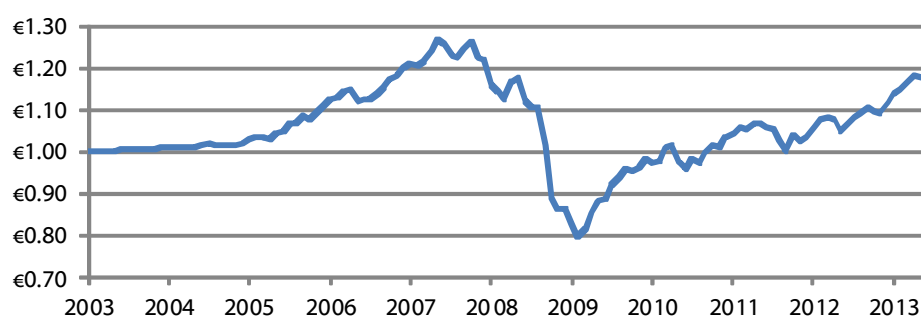
Share price change: -2.12%

April	1.36%
May	-0.32%
June	-3.12%

New investments in Q2

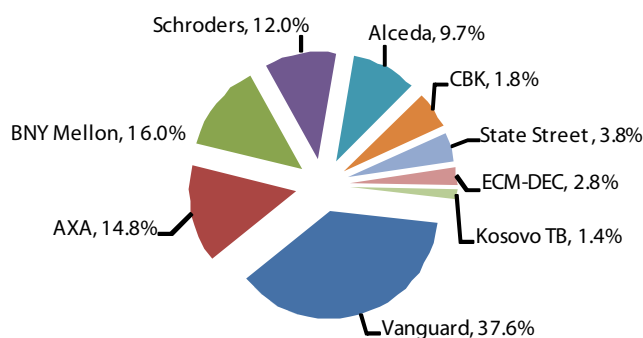
BNY Mellon	30.00 mln. €
AXA GILB	10.00 mln. €
Alceda	10.00 mln. €
Schroders	10.00 mln. €
Bono të Kosovës	12.00 mln. €

TRUST'S CUMULATIVE PERFORMANCE SINCE ITS INCEPTION



Period	1 month	3 months	YTD	1 year	5 years	Since inception
Results	-3.12%	-2.12%	2.10%	7.03%	2.06%	14.05%

FUND PLACEMENT IN Q2 2013



PERFORMANCE OF INVESTIVE FUNDS IN Q2 2013

1. VANGUARD	▲ +1.53%	4. AXA GILB	▼ -6.61%	7. STATE STREET	▼ -9.24%
2. SCHRODERS	▲ +1.07%	5. BNY Mellon	▼ -3.50%	8. KOSOVO TB	▲ +0.40%
3. ECM-DEC	▲ +0.65%	6. ALCEDA	▼ -7.42%		

INVESTMENT PERFORMANCE: DECLINING IN Q2

After an extraordinarily good investment performance of KPST in the first quarter the performance declined in Q2. Investment return was -2.12% resulting in the share price of €1.1405, down from €1.1652 at the end of Q1. Irrespective of the performance, assets under management continued to increase thanks to new contributions paid in, and reached over €803 million, up from €795 million three months prior.

None-the-less, the good news for contributors is that KPST ended the first half of 2013 with a positive performance, in which the gross investment return was around €17 million, or 2.1%.

Reasons

Unlike the first quarter of the year, when investment performance was positive for each of the months, the volatility was quite strong in the second quarter. Global financial markets were predominantly positive up to June, when a series

of negative events occurred (i) in developing countries the rate of economic growth declined further (ii) in certain countries of the European Union the need for financial aid resurfaced whilst the overall data on economic growth and unemployment were not satisfactory; (iii) in U.S. the chief of FED's statement that "fiscal easing is not expected to last for very long" rattled financial markets worldwide.

Asset Managers

In addition to the main reasons which contributed to the negative performance, this quarter was uncommon in that the diversification of the investment portfolio designed to protect investments did not have the desired effect. As shown in Table 1, the decrease in the value of invested funds came precisely from those investments in KPST portfolio which are supposed to provide performance stability and protection through diversified placements (State Street, Alceda, AXA and BNY Mellon). This occurred

due to imbalanced movements in financial markets, creating initial overestimates and subsequently oscillations in the value of various financial instruments. This time round the contraction happened mostly as a result of corrections in the valuation of financial instruments rather than as a result of a crisis in financial markets.

Expectations

The fact that the investment performance for the first half of the year has been positive is quite encouraging for KPST investment performance for the second half.

Table 1: Investment performance in Q2 2013 and placements at the end of the quarter

Manager/Bank	Investment type	Allocation (In Euros)	Gross return (In Euros)	Performance (In %)
Vanguard	Equities	303,777,654.81	4,878,148.73	+1.53
Schroders	Bonds	96,354,282.33	907,340.48	+1.07
ECM	Loans	22,471,646.45	173,938.64	+0.65
Kosovo Government Bonds	Treasury bills	11,594,352.94	48,100.74	+0.40
NLB Prishtina *	Loans	-	29,002.34	+0.17
BNY Mellon	Absolut return	128,662,042.36	-4,747,336.61	-3.50
AXA	Global inflation linked bonds	118,540,906.38	-8,368,073.98	-6.61
Alceda	Absolut return	77,587,315.57	-6,209,713.3	-7.42
State Street	Equities	30,205,381.45	-3,076,297.36	-9.24
	Total	789,193,582.29	-16,364,890.32	-2.12

*Deposits in NLB Prishtina were ongoing only until 19.04.2013 and do not feature as placements at quarter end; the accumulated interest is up to the above mentioned date.

ANNUAL REPORT AND FINANCIAL STATEMENTS PUBLISHED

The 2012 Annual Report and Financial Statements (for pension assets and operations) were published at the end of May. The report summarises the main KPST activities and processes related to: contributors, retirees, investments and investment performance, the Board, KPST Management and employees, as well as the overall KPST functioning. As far as financial statements is concerned

the most important news is that the independent external auditor, as in previous years, expressed an unqualified opinion, emphasising that "financial statements present fairly, in all material respects, the financial position of KPST, its financial performance and its cash flows in accordance with International Financial Reporting Standards.

The annual report and financial statements have been compiled in three languages: Albanian, English and Serbian.

The Annual Report 2012 and financial statements can be found on the official KPST website at the following address: <http://trusti.org/index.php/en/annual-reports>.

THE ASSEMBLY APPROVED 2012 ANNUAL REPORT

Kosovo Assembly, in late June, approved the annual report and financial statements for the year 2012 with 58 votes "For" and 3 votes "Against". The approval from members of the Assembly came after the recommendations from functional committees of the Assembly who had beforehand reviewed the report and statements. Overall, MPs raised no issues related to the annual report and its content, and assessed it as

the best annual report prepared by KPST to date; they also valued the good investment performance and the efforts of KPST in tackling funds not allocated to individual accounts. The only remarks which MPs had were related to two issues which are not entirely in the hands of KPST: 1) The fact that funds not allocated to individual accounts remain high, albeit this is the responsibility of TAK, and 2) the issue of predominant

investments abroad, to which there is no alternative, as investment opportunities in Kosovo are limited due to lack of developed financial markets. Full transcript of statements by MPs on the issue can be found in the following webpage:

http://www.assembly-kosova.org/common/docs/proc/trans_s_2013_06_20_10_5009_al.pdf.

NEW INVESTMENTS IN Q2

The KPST Governing Board invested €72 million in the second quarter of this year. Around €12 million were invested in debt securities of the Kosovo Government, whereas €60 million were invested in the global financial markets, through existing open-end funds, as follows: BNY Mellon (€30 million), AXA (€10 million), Schroders (€10 million)

and Alceda (€10 million). These investments were based on the performance of these open-end funds throughout the year and on the views of the Board as to the direction of financial markets in the short to medium term. Distribution of new investments to specific instruments is also done in order to rebalance investments to the 40/60 rule as per the

investment strategy of the Board. Overall, during the first half of 2013, the Governing Board has invested an additional €107 million. Out of the total pension assets under management, valued at €803 million, invested funds are valued at €789 million, leaving only €14 million not invested at the end of Q2.

NOVELTY IN APPLYING FOR RETIREMENT

Persons applying for the withdrawal of pension savings in KPST no longer need to fill in physical forms in order to submit their application. KPST officials will conduct an interview with applicants in order to gather all the necessary information and electronically fill in the form.

Applicants now only review the application, confirming the accuracy of information and data in it. KPST officials process the application only after the application has been signed and accepted in by the applicant. With the new procedures in place the process is speeded and made

easier for both the applicant and KPST officials. Furthermore, the accuracy of the data is expected to be much higher. This project is currently being applied only in KPST office in Prishtina, and it is planned that during the third quarter the same be extended to TAK regional offices.

ALLOCATION OF FUNDS INCREASES TO 98.05%

The allocation of contributions into individual accounts has continued to improve in the second quarter, with 98.05% of contributions now allocated. The remaining 1.95%, or €15.3 million (Q1 2013: 2.19% or €16.4 million), are contributions not distributed to individual accounts. Perhaps the improvements can be appreciated more when compared to the end of 2008 when un-allocated contributions were 17.1%, or €44.5

million. When looking at year 2013 alone the statistics are much better. Contributions not allocated to individual accounts are 1.21% of contributions received during the year. In order to achieve this KPST is much more up-to-date in contacting employers directly whenever un-allocated funds remain, but it is none-the-less to contact all the employers with such un-allocated funds. A portion of funds comprising un-allocated

contributions are undoubtedly penalties and interests levied by TAK for the late payment of contributions, and in order to identify them a co-ordination and collaboration with TAK is done. On quarterly basis KPST refunds such penalties and interests to the Tax Administration.

THE ASSEMBLY APPROVED FEES FOR 2013

The Assembly of Kosovo in May approved fees to be charged on the pension assets in order to cover investment and operational expenses of KPST for 2013. The Assembly approved the recommendation of its Committee for Budget and Finance that fees of 0.15% p.a. of gross assets be charged to cover operational

expenses of KPST, and 0.38% p.a. to cover investment expenses. This makes total fees 0.53% p.a., decreased from 0.60% p.a. for year 2012. Given that fees were belatedly approved by the Assembly, they could only be applied starting from May 20th. A reminder here that investment fees cover expenses related to the

investment of pension assets, such as managers of open-end funds through which KPST invest most pension assets, whilst operating fees cover all other expenses e.g. salaries, rent, supplies, printing and distribution of account statements, and all other services for contributors.

€2.8 MILLION WITHDRAWN IN Q2

During the second quarter, the value of funds withdrawn from contributors' accounts was €2.8 million. This is a small drop compared to the previous quarter, when €2.9 million were withdrawn, due to fewer applications submitted, or 1,651

applications compared to 1,919 in the previous quarter. Out of €2.8 million withdrawn in Q2, €2 million were withdrawn in the phased withdrawal scheme by persons retiring with a balance of over €2,000. The remaining €800 thousand were paid in lump-sum

to persons retiring with a balance of up to €2,000 or to beneficiaries of deceased contributors. In total, for the first half of the year, € 5.7 million were withdrawn from 3,570 contributor accounts.

ACCOUNT STATEMENTS DISTRIBUTED

During May KPST was notified by the Kosovo Postal Service that the process of distributing account statements, which had started in the beginning of March, had ended. According to the report of the Postal Service the level of distributed statements was 95%. According to the report, 5% of the undelivered statements were due

to deficiencies in addresses or persons no longer living there. Because of the ever-present problems accuracy of addresses in KPST records, KPST asks contributors who did not receive their statements to have this in consideration. As issues with addresses and physical delivery of statements are not expected to

be resolved in the near future, contributors are encouraged to register on eTrusti, the online portal which can be used free of charge. Procedures for activating this service are simple, and users can access their account via the internet at any time.

INVESTMENT STRATEGY UNCHANGED

The KPST Governing Board, in the meeting held at the end of June, decided not to change the investment strategy. The strategy, excluding cash at CBK, will continue to be 40/60, i.e. 40% of assets to be invested in equity

open-end funds and 60% of assets in absolute return and inflation protected instruments. The Board's decision to stick to the same strategy was a result of oscillations in the second quarter, and the need for more stable

market conditions and expectations in the global economy, both being important preconditions to changes in the investment strategy.

eTRUSTI WITH ADDITIONAL CHANGES

The electronic service of KPST, eTrusti, which enables contributors to access their pension savings accounts online, now offers the possibility of downloading in PDF format the account statement. An account statement downloaded through

eTrusti is identical to statements obtained by contributors at KPST's office or those received by post. Additionally, the list of municipalities has been updated to allow users to choose municipalities according to the most recent municipality

boundaries in force in Kosovo. In the near future it is expected that eTrusti will offer to its users the possibility of applying for the withdrawal of pension savings as well as the possibility of designating beneficiaries and successors.

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