

# TRUSTORY

## HEADLINES

- \* €24.4 million return in Q3 (page 2)
- \* Board adopted the budget (page 3)
- \* +€11 mln. invested in Kosovo (page 3)
- \* 98.2% of assets allocated (page 5)

## KEY FACTS

As of 30 September 2013

Share price	€1.1733
AUM	€853,944,771.91
Paid pensions in Q3	€2.4 mln.
Contributors' accounts	439,476
Shares in issue	727,844,540.09

## INVESTMENTS IN Q3

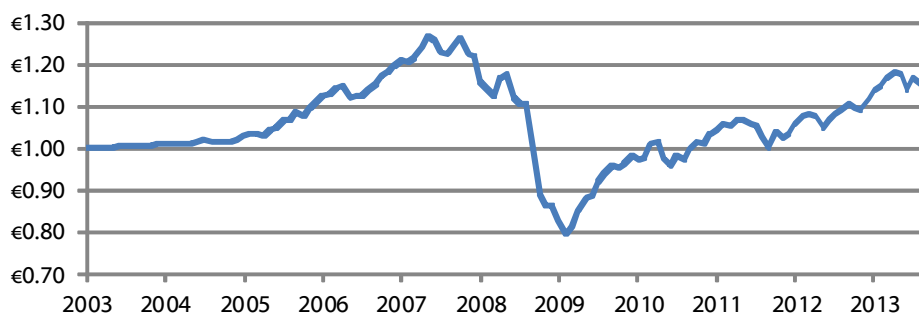
Share price change: 2.88%

July	2.3%
August	-1.1%
September	1.7%

Return on investments: +24.37 mln. €

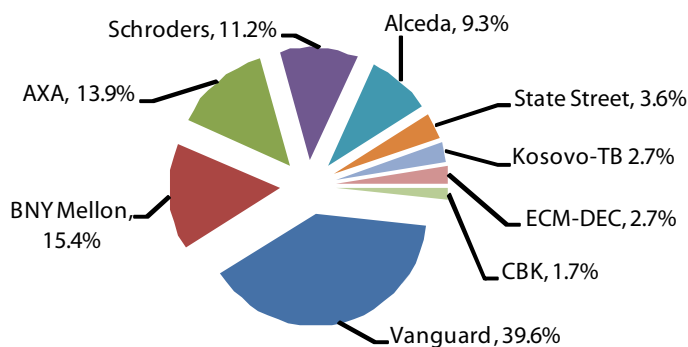
July	€ 18.52 m
August	-€ 8.83 m
September	€ 14.67 m

## KPST CUMULATIVE INVESTMENT PERFORMANCE SINCE INCEPTION



Period	1 month	3 months	YTD	1 year	5 years	Since inception
Results	1.72%	2.88%	5.04%	6.33%	15.61%	17.33%

## FUND ALLOCATION IN Q3 2013



## PERFORMANCE OF INVESTMENTS FUNDS AND KOSOVO TB IN Q3 2013

1. VANGUARD	▲ +6.12%	4. AXA GILB	▲ +0.35%	7. STATE STREET	▲ +1.53%
2. SCHRODERS	▼ -1.05%	5. BNY MELLON	▲ +2.21%	8. KOSOVO TB	▲ +0.36%
3. ECM-DEC	▲ +2.04%	6. ALCEDA	▲ +1.80%		

## €24.4 MILLION RETURN ON INVESTMENT IN Q3

Kosovo Pension Savings Trust during the third quarter had a gross return on investment in the value of €24.4 million. The positive return in this quarter resulted with an increase of 2.88% in the share price from €1.1405 to €1.1733. The gross return on investment for the first nine months of the year was €41.5 million; whereas, since the beginning of the year the share price has increased by 5.04%. Despite the €4.0 million outgoings from the fund, the quarter's return, along with €30.3 million of new contributions, resulted in a €50.7 million increase in assets under management which reached €854.3 million. The outgoings from the fund include the withdrawal of savings, refunds of erroneous contributions, and operational and investment fees which KPST charges for managing pension assets.

### Influential factors

Positive records of economic growth and reduced unemployment in the U.S., in addition to the positive reports from global corporations for the first half of the year, made the third quarter begin with a substantial increase, especially in the shares of corporations of developed countries. The shares in emerging markets continued to drop as in the previous quarter, due to a slow economic growth in the developed countries. During August more tensions were noted among investors because of the potential military intervention in Syria, but also due to expected termination of the quantitative easing in U.S

in the coming month, thus affecting the majority of financial markets worldwide. However, in September it was decided to extend the provision of quantitative easing in the U.S. which resulted with a higher demand for investments in shares, including those of emerging markets; while due to the possibility of the U.S. Senate failing to reach an agreement for raising the debt ceiling in the coming month there was a negative impact in the bond market, especially with entities affiliated to the U.S. government. Despite these oscillations, KPST managed to close the quarter with positive results.

### Investment funds performance

All investment funds, with the exception of that of Schroders which has invested a large portion of assets in bonds entities affiliated to the U.S. Government (such as Fannie Mae or Ginnie Mae), had a positive performance in this quarter. By far the best result was achieved by the Vanguard fund with 6.12%, which invests in shares of major corporations in developed countries. A good performance was also achieved by funds that invest in corporate bonds and bonds of non-US treasuries, which marked a higher demand during the period; but also because of the restored valuation of bonds which hit the sector after the May's mini-crisis. Thus, funds like those of Alceda, AXA and BNY Mellon recovered and managed to overcome the falls recorded in the previous quarter.

**Table 1: Investment performance in Q3 2013 and placements at the end of the quarter**

Manager/Entity	Investment class	Allocation (in Euro)	Gross return (in Euro)	Performance (in %)
Vanguard	Equities	338,234,134.79	19,572,946.17	+6.12
BNY Mellon	Absolut return	131,506,051.70	2,844,009.34	+2.21
ECM	Loans	22,929,292.31	486,307.14	+2.04
Alceda	Absolut return	78,894,709.53	1,397,393.96	+1.80
State Street	Equities	30,667,439.60	462,058.14	+1.53
Kosovo Treasury Bills	Treasury bills	23,322,366.37	83,450.82	+0.36
AXA	Global inflation linked bonds	118,970,957.45	534,553.36	+0.35
Schroders	Bonds	96,354,600.90	-1,009,681.43	-1.05
	<b>Total</b>	<b>840,879,552.65</b>	<b>24,371,037.50</b>	<b>+2.88</b>

## **GOVERNING BOARD ADOPTED THE BUDGET FOR 2014**

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Governing Board of Kosovo Pension Savings Trust adopted the annual budget for 2014. The budget for operational activities is estimated €1.43 million (2013: €1.55 million). This decrease of 7.7% comes as a result of reduction in all budget categories of KPST, with the exception of the category related to the delivery of individual statements to contributors which was increased due to a 50% hike of postage fees charged by the Post of Kosovo. The budget category that marked the biggest decrease is that of capital investments where the activities planned for 2014 are significantly lower compared to 2013.

In order to finance the operational activities, the Board decided to request from the Assembly of the Republic of Kosovo to approve an operational fee of 0.13% of assets, which is lower than the current 0.15% fee adopted by the Assembly for the year 2013.

On the other hand, the budget for investment activities, i.e. expenses related to the investment of pension assets, is estimated to be €3.77 million (2013: €3.18 million). This 18.5% increase is primarily due to the expected 12% increase in assets under management, which in turns accrues more investment expenses. Another reason for the increase

is the fact that the Governing Board plans to adopt a new investment strategy in 2014 with the aim to reduce the inherent investment risk and increase the return on investments. This can only be achieved through active fund management, which is why the Board plans to position more assets in actively managed funds that typically have higher management fees.

As for financing the investment activities, the Board decided to request from the Assembly to approve an investment fee of 0.40% of assets, which is higher than the current 0.38% fee adopted by the Assembly for the year 2013.

In total, fees proposed by the Board for Assembly's approval are 0.53% of assets, which is equal to current level. Despite the request to maintain the same level of overall fees as in 2013, KPST continues to be the pension fund with several times lower fees than other defined contribution pension funds in the region.

## **THE BOARD INVESTED AN ADDITIONAL €11 MILLION IN KOSOVO T-BILLS**

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KPST Governing Board during this period undertook two additional investments in bills issued by the Treasury of the Republic of Kosovo. In total, €11.6 million was invested through two auctions: €9.9 million and €1.7 million, respectively. Both investments were of a 6-months maturity, with interest rates of 1.49% and 1.24%, respectively.

This brings the total of investments in Kosovo bills for the year to over €23 million, and KPST plans to

participate in the remaining auctions for the year. During Q3 the Board also made an additional investment of €15 million in the Vanguard fund. The quarter ended with €840 million worth of invested assets, whereas €14 million were uninvested in KPST's account at CBK.

## **2.4 MILLION EURO WITHDRAWN IN Q3**

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The value of funds withdrawn by beneficiaries in Q3 was €2.4 million, compared to €2.8 million in the previous quarter. Even though the share price increased, the number of applications for the withdrawal of pension savings went down from 975 to 763.

The majority of withdrawn assets, or €1.7 million, was directed to the phased withdrawal programme for 382 retirees who had a balance of more than €2,000 in the pension savings account. There were 230 persons who retired with a balance of up to €2,000 and who

received the total proceeds of €164 thousand in a single payment. During the quarter €467 thousand were also withdrawals from accounts of 151 contributors that died before reaching the retirement age. KPST also paid out €57 thousand in residual payments which consist of contributions identified after persons have retired (after the initial withdrawal of funds from KPST).

In total, for the first nine months of this year 2,783 applications for the withdrawal of savings have been approved and €8.1 million have been paid out.

## **TAK PUBLISHED THE ADMINISTRATIVE INSTRUCTION ON PENSION CONTRIBUTIONS**

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Following the amendments in the reporting procedures of pension contributions during the last year (imposing a mandatory monthly reporting) and also technological upgrades of information processing related to pension contributions (electronic reporting), Tax Administration of Kosovo (TAK) drafted and published the secondary legislation for the payment and reporting of pension contributions.

The administrative Instruction was issued by TAK as a result of the entry into force of Law No. 04/L-168

amending and supplementing the Law No. 04/L-101. An important amendment in this instruction is that it regulates responsibilities and obligations deriving from contribution correction reports.

According to the latest instruction, any correction report of pension contributions which would consequently debit the pension savings account of a contributor, before being processed must be approved by a Tax Inspector. The role of employers is to ask for such approval from regional TAK offices and submit the approved form to the KPST.

## **DRC PROJECT ACCOMPLISHED**

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During Q3, using the most up to date technology, the back-up centre became operational to be used in disaster recovery cases (DRC). The project which started in the beginning of the year was implemented with the installation of hardware and software in the back-up server room.

This process will enable the continuous saving and updating of all data related to the functioning of KPST. In addition, during this period the first tests

were carried out for functioning of the processes, and the results showed to be positive and in accordance with plans. Many preparatory activities were undertaken to enable a much faster and safer data transfer, by establishing a designated line between two centres, with a much higher internet speed. The implementation of this project ensures higher data security and the continuation of operations within 24 hours from a serious disaster.

## **ASSETS ALLOCATED IN ACCOUNTS: 98.2%**

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KPST has continued in the third quarter to reduce the amount of funds unallocated in contributors' accounts. The total of unallocated contributions was reduced to €14.2 million or 1.8% (Q2: €15.3 million or 1.95%). The decrease of €1.1 million was due to two main factors: the proactive cooperation with TAK and the continued calls and contacts with employers in order to obtain missing contribution reports. The proactive cooperation with TAK involves identifying

finances and interests which along with pension contributions have been paid by businesses in to the KPST's account instead of TAK's account.

The refund of such funds is now done on regular quarterly basis for new collections; however periods before 2010 are also being reviewed.

## **ONLINE APPLICATION FOR THE WITHDRAWAL OF PENSION SAVINGS**

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Developments in the eTrusti portal continued also in this quarter. The latest services provided in eTrusti include: a) designating family members and alternative beneficiaries; and b) application for the withdrawal of pension savings (application for retirement pension). Designating family members and alternative beneficiaries facilitates the decision making process on inheriting the pension savings in case of an early death of a contributor.

With Online application contributors do not have to visit the offices of KPST in order to apply for the withdrawal of pension savings. After having answered a series of relevant questions in the portal, at the end

of the process the application form shall be generated which must be printed by contributors, and along with the required documents, delivered (by post or otherwise) to KPST offices or to the regional TAK offices.

However, this only applies for contributors who meet the conditions for the withdrawal of pension savings; the online application shall not be successful for portal users who have not reached the retirement age or who are not categorised as permanently disabled for work by the Ministry of Labour and Social Welfare.

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