

QUARTERLY NEWSLETTER
KOSOVO PENSION SAVINGS TRUST



TRUSTORY

KPST CUMULATIVE PERFORMANCE SINCE INCEPTION



PERIOD	1M	3M	VITI	1V	5V	NGA THEMELIMI
RESULT	-2.14%	-4.24%	-1.16%	0.58%	27.18%	27.29%
BENCHMARK*	-0.39%	-0.47%	-0.79%	-1.25%	9.46%	30.27%

*KOSOVO CONSUMER PRICE INDEX AS PUBLISHED BY THE KOSOVO AGENCY FOR STATISTICS

PERFORMANCE OF INVESTMENTS ON Q3

UNIT PRICE:

JULY	▲ +1.69%
AUGUST	▼ -3.77%
SEPTEMBER	▼ -2.14%
TOTAL NET PERFORMANCE	▼ -4.24%

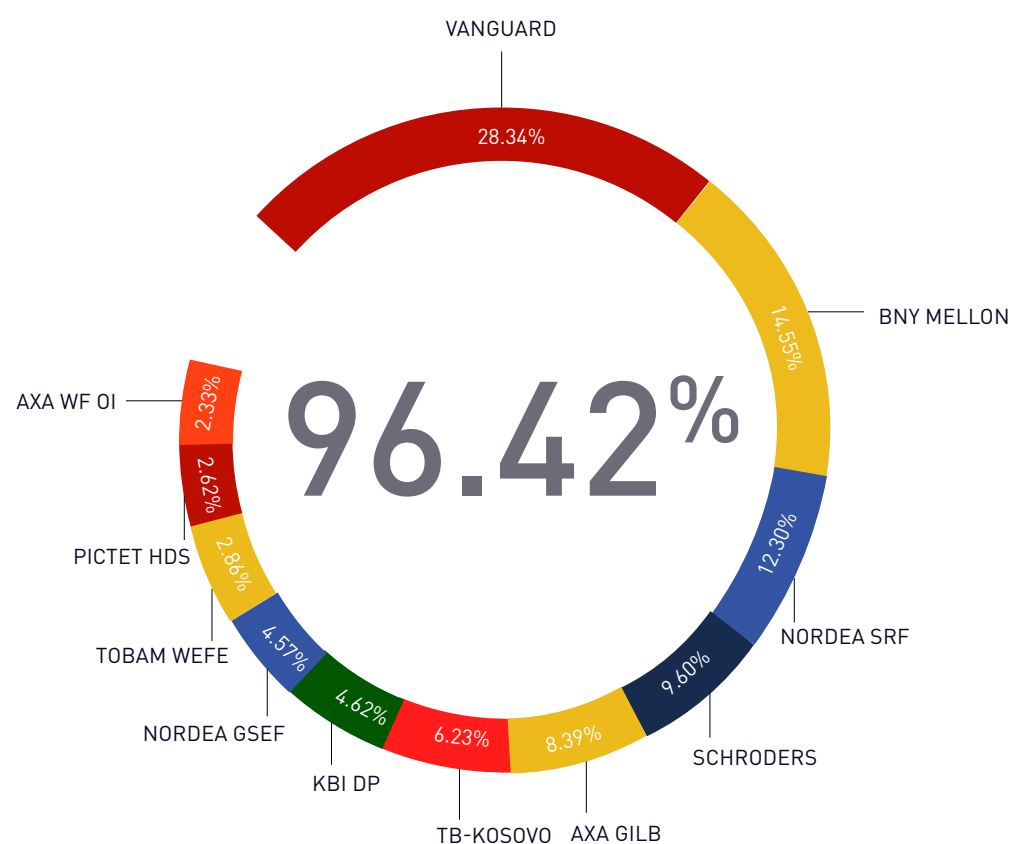
GROSS RETURN:

JULY	+20.36m
AUGUST	-45.33m
SEPTEMBER	-24.70m
TOTAL GROSS RETURN	-49.67m

KEY FACTS

UNIT PRICE €1.2729	NET AUM €1,157,576,162.63
BENEFIT PAYMENTS DURING QUARTER €3.17m	BENEFIT PAYMENTS YTD €14.23m
NEWLY WITHDRAWN ACCOUNTS 1,393	WITHDRAWN ACCOUNTS YTD 3,856
CONTRIBUTORS' ACCOUNTS 498,805	ACTIVE CONTRIBUTORS YTD 280,859
NEW CONTRIBUTORS 9,006	CONTRIBUTIONS DURING QUARTER €34.86m
SERVICES OFFERED DURING QUARTER 34,813	ETRUSTI ACCOUNTS 45,082

ASSET ALLOCATION AT QUARTER-END



-€12.16M GROSS YTD RETURN

The third quarter ended with a negative performance of -4.24%, making the YTD performance turn red to -1.16%. The share price decreased to €1.2729 at the end of Q3 (Q2: €1.3293). The highly positive performance of investments during Q1 gives KPST a good chance of returning to positive waters during Q4. As a result assets under management shrank during Q3 by €2.3m to €1.16 billion. New contributions for the period were €34.9m. During Q3, €3.2m were withdrawn through retirements, €1.4m were charges for management fees (investment and operation), and €0.8m were refunded.

INFLUENTIAL FACTORS

Global financial markets underwent strong fluctuations during Q3, with a steep decline triggered by the beyond-expectations weakening of economic indicators in China. This caused fear among the entrepreneurs as regards the consumption and exports of the greatest developing economy, and, as a result, a massive sale of shares took place, especially in Asian stock markets. This situation was further aggravated by the decision of the Chinese Government to control the depreciation of Yuan against other currencies, due to which a number of economic balances, established on the basis of supply-demand, were damaged. In addition, neither the decision of FED on non-termination of the policy of monetary incentives was helpful to the markets, which translated it as a reflection of a poor situation of economic indicators in the USA and developing countries.

PERFORMANCE OF INVESTMENT FUNDS

The investment funds utilised by KPST showed positive signs of buffering the strong fluctuations in markets in relation to the overall KPST portfolio. For illustration: during Q3 the S&P 500 index decreased by -6.94%, whereas the unit price of KPST decreased by -4.24%. Having analysed all the investment funds subscribed to by KPST, only Nordea SRF Fund remained in positive waters (+0.30%), because its portfolio is diversified in asset classes and is primarily focused on Euro denominated instruments (77.5%) which were favoured in this quarter. Whereas, all the other funds were in a negative territory. The pure equity funds, as expected, had the greatest decrease, although there were also differences with respect to this. The performances of KBI DP, Tobam and Pictet (-9.94%; -9.76%; -8.98%, respectively), were influenced by their geographic exposures in Asia and Europe, and also by the sectorial exposure (financial industry, mining industry, energy, and consumption products) which had a poor performance. Other equity funds: such as Vanguard (-7.85%) and Nordea GSEF (-5.04%), did somewhat better due to the concentration of investments in the USA. The mixed-assets fund of AXA-WFOI (-5.30%) and that of BNY Mellon (-1.68%) avoided bigger decreases due to the presence of other financial instruments (mainly bonds) in the fund. The bonds fund of Shroders (-2.35%) did not benefit that much, because the monetary incentives in the USA did not favour this fund, whereas the portfolio of AXA GILB (-0.08%), with 48% of portfolio in USD, did not benefit from the appreciation of this currency. The investments in Kosovo (Government bonds), which are held to maturity, had a return of 0.59% in Q3.

Q3 PERFORMANCE

-4.24%

YTD PERFORMANCE

-1.16%

ALLOCATION AND PERFORMANCE FOR EACH MANAGER / ISSUER

MANAGER / ISSUER	FUND NAME / INSTRUMENT	ALLOCATION	PERFORMANCE
Vanguard	Global Stock Index Fund - Euro	€328,148,160.29	-7.85%
BNY Mellon	Global Real Return Fund	€168,470,723.64	-1.68%
Schroders	Strategic Bond - Euro Hedged	€111,199,069.71	-2.35%
Nordea	1-Stable Return Fund	€142,431,999.20	+0.30%
AXA	Global Inflation Linked Bonds	€97,160,324.98	-0.08%
Treasury of the Republic of Kosovo	Securities and bonds	€72,159,280.22	+0.59%
KBI	Divident Plus	€53,512,039.09	-9.94%
Nordea	1-Global Stable Equity Fund	€52,953,378.91	-5.04%
TOBAM	Anti-benchmark WEFÉ hedged share class	€33,146,826.41	-9.76%
Pictet	High dividend selection Z EUR	€30,294,462.38	-8.98%
AXA	WF Optimal Income I EUR	€26,933,384.47	-5.30%
TOTAL		€1,134,533,594.70	-4.24%

THE BOARD HELD TWO MEETINGS

The Governing Board of KPST held two meetings during Q3, namely on 4 and 29 September. The Board meeting of 4 September was held as an extraordinary meeting, due to the sharp falls in financial markets and its impact on the KPST investment performance.

However, considering the fact that the current investment strategy was holding well given market turbulences, and the view that the global economy was not undergoing serious macroeconomic problems; the Board decided not to change the existing strategy at least until the next meeting at the end of September.

In the meantime, the Board would request all the fund managers to send their assessments and views on the expectations for the future. In this meeting, the Board had decided that KPST would bid €10m in the Kosovo 2-year bonds auction of 29 September.

Whereas, in the meeting of 29 September, the Governing Board rendered the following decisions: to change several limits in the investment strategy; to approve the 2016 budget as well as fees for investments (0.398%) and operations (0.082%) and to submit fees for approval to the Assembly; to announce the expression of interest for investment of assets in bank deposits with Kosovo banks; and to publish the expression of interest for the banks that wish to offer for the phased withdrawal of funds. In the end, having reviewed and assessed the overall investment performance based on the current strategy, and having received detailed reports from the investment fund managers on the performance expectations, the Governing Board considered that there is no need, for the moment, to change the investment strategy further.

LAW ON PENSION FUNDS UNDER REVIEW

The current Law no. 04/L-101 on Pension Funds in Kosovo and Law no. 04/L-168 on amending of the latter, are in the process of review and supplementation. KPST representatives are part of the working group, and based on the hitherto information, it is expected that the amendments and supplementations to the Law will be mainly technical in nature, making clarifications as regards some items and certain responsibilities. The essence of the way in which Pillar II works is not expected to change. Nevertheless, it is not expected for amendments to come into force during the current year.

THE TERM OF FIVE MORE BOARD MEMBERS EXPIRED

The term of five out of seven members of the Governing Board of the Kosovo Pension Savings Trust expired at the end of October, while the term of one professional member had already expired on 23 January 2015. The Selection Committee has submitted to the Assembly of Kosovo the names of five candidates, selected based on the vacancy announcement in accordance with the legal requirements. As a result, the Governing Board at present has only one member with a valid term. Meanwhile, the vacancy announcement for a single post as professional member has already been published, and in October the list of all candidates has been sent to the Selection Committee for further action. With only one member, the Governing Board does not have the necessary quorum (of at least five members) for decision-making, and as such, it shall not be functioning until the Assembly of Kosovo makes the appointments. It should be stressed that the Governing Board has the exclusive power for investment decisions related to pension assets and the proper functioning of KPST as a whole. Nevertheless, the Governing Board has delegated some of its powers related to daily operational matters to the remaining member of the Board and the Management until such time as the new Board is appointed by the Assembly.

31% SERVICES MORE THAN IN THE PREVIOUS YEAR

The number of services provided by the KPST office during Q3 reached 19,427 (Q2: 19,398) or an increase of 0.1%. For the first nine months of the previous year, the number of services increased by 31% compared to the previous year, or 57,505 services (Jan-Sep 2014: 43,759 services). The three most requested services during this quarter were: printing of statements (36%); retirement notifications (32%); and authorising use of eTrusti accounts (8%).

On the other hand, the number of self-services through eTrusti decreased further to 1,322 (Q2: 1,930), with the services offered at TAK regional offices also decreasing to 9,062 (Q2: 9,851). In total, during Q3, 29,811 contributors, or 11.0% of active contributors, were served or self-served (Q2: 31,179 or 12.0% respectively), influenced by the fall of visits to TAK and eTrusti.

€3.2m PENSIONS PAID OUT IN Q3

The pensions paid during Q3 amounting to €3.2m shrank compared to the previous quarter (Q2: €5.5m). The total value of assets paid out during the first nine months of the year reached the €14.2m. For the same period of the last year this amount was approximately €11m, or 29% lower.

Comparing the nine-month period of this year with the same period of the last year, the number of retired contributors increased by 21 % (from 3,321 to 4,014). For this nine-month period, there were 3,281 (or 82%) old-age retirements, 573 (or 14%) cases of death, and 160 (or 4%) cases of disability.

As regards the average balance of accounts in the end of the nine-month period, there was an increase of active accounts by 10 % to €3,295 (30.09.2014: €2,846), and an increase by 8% to €2,117 (30.09.2014: €1,964) for all the existing accounts.

THE CBK SUBMITTED THE FINAL EXAMINATION REPORT

The Central Bank of Kosovo (CBK) during Q3, submitted its final 2014 examination report to KPST. The Report did not include any findings serious in nature. Several recommendations were provided in the report in relation to the advancement of processes in KPST, which are expected to be implemented during this year.

Meanwhile, the CBK approved the external auditor, Deloitte Kosova, for the next two years. Following CBK's approval, KPST has initiated the exchange of information with the company in question and the audit process is expected to commence during Q4. The final opinion of the external auditor related to the financial activities of KPST will be presented in the financial statements 2015, which will be published latest by April 2016.

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