

QUARTERLY NEWSLETTER
KOSOVO PENSION SAVINGS TRUST



TRUSTORY

KPST CUMULATIVE PERFORMANCE SINCE INCEPTION



PERIOD	1M	3M	1Y	3Y	5Y	SINCE INCEPTION
RESULT	-1.27%	3.47%	2.27%	17.91%	27.53%	31.71%
BENCHMARK*	-0.08%	0.60%	-0.16%	-0.08%	7.27%	31.10%

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

PERFORMANCE OF INVESTMENTS IN Q4 2015

UNIT PRICE:

OCTOBER	▲ +4.27%
NOVEMBER	▲ +0.52%
DECEMBER	▼ -1.27%
TOTAL NET PERFORMANCE	▲ +3.47%

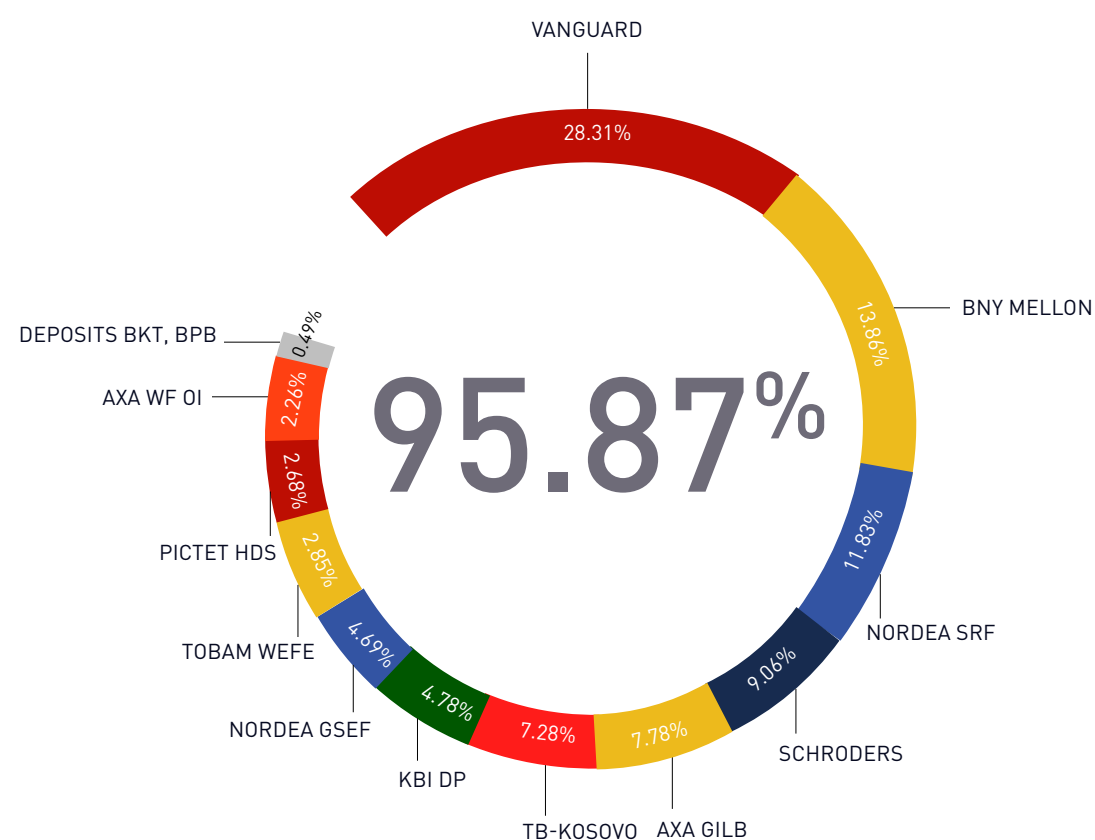
GROSS RETURN:

OCTOBER	+€50.05m
NOVEMBER	+€6.83m
DECEMBER	-€15.17m
TOTAL GROSS RETURN	+€47.72m

KEY FACTS

UNIT PRICE €1.3171	NET AUM €1,229,333,327.33
BENEFIT PAYMENTS FOR THIS QUARTER €4.36m	BENEFIT PAYMENTS YTD €19.23m
WITHDRAWN ACCOUNTS FOR THIS QUARTER 947	WITHDRAWN ACCOUNTS YTD 4,803
CONTRIBUTORS' ACCOUNTS 507,963	ACTIVE CONTRIBUTORS YTD 297,466
NEW CONTRIBUTORS FOR THIS QUARTER 8,884	CONTRIBUTIONS DURING QUARTER €34.86 m
SERVICES OFFERED DURING QUARTER 16,361	TOTAL eTRUSTI ACCOUNTS 48,427

ASSET ALLOCATION AT QUARTER-END



€29.6M GROSS RETURN IN 2015

Gross investment return in Q4 was €47.7m, resulting in +€29.6m during the year, while the unit price increased to €1.3171 or +2.27% for the year. The positive performance of investments also influenced the assets under management, which during the quarter were increased by €73.7m and €142m during the whole year, thus reaching €1.23 billion, while the new contributions in Q4 were €36.2m and €137.5m for the year. Regarding outgoing payments for the year: Withdrawals of savings accounted for €19.2m; Investment and operational fees were €5.8m; and Refunds of incorrect contributions were €380k.

INFLUENTIAL FACTORS

In Q4, the developments in the USA were in the main focus, awaiting the FED decision on closing the monetary quantitative easing program, increasing the interest rates for the first time since 2006. This occurred after the publishing of the macroeconomic indicators that showed improvement, and with the unemployment rate that dropped to 5% - the lowest level in 7 years. This action increased the confidence and investors' appetite influencing the increase of markets. On the other hand, the steep and fast decrease in petroleum prices had a negative impact during the last days of the year, which eroded a good part of the growth of this quarter, as well as year as a whole.

INVESTMENT FUND'S PERFORMANCE

The improvement of financial markets was followed also by investment funds utilised by KPST, and with the exception of AXA GILB, others finished the quarter with positive results. The KBI portfolio had the best result, with a greater distribution in the financial sector (21%), and with an intense concentration in the USA and Japan (61% and 9%). The main index of the latter (Japan) had the best performance in Q4 out of all the main markets, +9.8% denominated in JPY. It was followed by Nordea GSEF fund (+8.95%), which had the greatest distribution in health products (26%) and an intense concentration in the USA and Japan (65% and 8%). Pictet Fund (+8.79%) came third and has indeed a more homogenous distribution across sectors and countries: (17%) in medical products and (42%) in the USA. Two other funds that had a very good performance in the share market were Vanguard (+6.19) and Tobam (+5.69%). The latter had also the lowest annual performance out of all the funds (-4.70%). Funds with more bonds in the portfolio had a lower performance, influenced by low interest rates of this instrument: AXA-WFOI (+3.50%), Nordea SRF (+2.26%), BNY Mellon (+1.29%). This situation was worse for the pure fixed income fund of Schrodgers, which boasted a +0.34% return for the quarter but finished the year negative at -2.57%. Meanwhile, the only fund with negative results in Q4, AXA GILB (-2.11%), and also negative for the year (-0.74), continues to suffer from the decrease of prices of products and devaluation of currencies, with common denominator being the petroleum price steep decrease. Investments in Kosovo are not influenced by external factors. The accrued interest for the investment period in deposits were, on average, 0.28%, and for bonds 0.57%.

Q4 PERFORMANCE

+3.47%

YTD PERFORMANCE

+2.27%

ALLOCATION AND PERFORMANCE FOR EACH MANAGER / ISSUER

MANAGER / ISSUER / BANK	FUND NAME / INSTRUMENT	ALLOCATION	PERFORMANCE
Vanguard	Global Stock Index Fund - Euro	€348,579,354.87	+6.19%
BNY Mellon	Global Real Return Fund	€170,643,378.77	+1.29%
Schroders	Strategic Bond - Euro Hedged	€111,573,427.92	+0.34%
Nordea	1-Stable Return Fund	€145,649,844.60	+2.26%
AXA	Global Inflation Linked Bonds	€95,816,362.75	-1.40%
Treasury of the Republic of Kosovo	Bills and bonds	€89,637,100.82	+0.57%
KBI	Divident Plus	€58,909,446.40	+10.08%
Nordea	1-Global Stable Equity Fund	€57,695,077.17	+8.95%
TOBAM	Anti-benchmark WEFÉ hedged share class	€35,032,098.14	+5.69%
Pictet	High dividend selection Z EUR	€32,956,868.29	+8.79%
AXA	WF Optimal Income I EUR	€27,877,091.00	+3.50%
BANKA KOMBËTARE TREGTARE	Term deposit	€3,009,082.19	+0.30%*
BANKA PËR BIZNES SH.A.	Term deposit	€3,008,013.70	+0.27%*
TOTAL		€1,134,533,594.70	+3.47%

*The performance presented here is for the interest accrued for the period from end-October, when deposits were placed, until 31 December 2015.

FIVE BOARD MEMBERS APPOINTED BY THE ASSEMBLY

The Board of KPST had been non-functional from the end-October 2015 when the mandates of five of its members expired, which had left the Board without a quorum for undertaking any actions or decisions. This was overcome on 30 November 2015, when the Assembly of the Republic of Kosovo appointed five members of the Governing Board of KPST on 3-year mandates. The Assembly appointed Mr. Ymer Havolli as Chairman of the Board and Mr. Behxhet Haliti, Mr. Frederick Artesani, and Mr. Joly Dixon as professional members, while Mr. Ruzhdi Morina was appointed as representative member for employees.

Once the new Board started with its work, the Board Committees - which deal with matters prior to their deliberation and voting in Board meetings - had members appointed to them. The Investment Committee is to be chaired by Mr. Frederick Artesani, the Budget Committee by Mr. Ymer Havolli, the Complaints Committee by Mr. Ruzhdi Morina, and the Audit Committee by Mr. Flamur Keqa. One professional Board member position still remains vacant. The vacancy announcement was republished in October, and KPST has no information on where the process stands, given that it is handled by the Central Bank.

22% MORE SERVICES THAN IN 2015

The number of services provided by the KPST office during 2015 reached 72,266 (2014: 59,030), an increase of 22%. The number of services provided by seven TAK regional offices increased by 45% to 43,608. The number of self-services dropped by 25%, primarily as less contributors have been updating their contact details.

The most frequent services for 2015 provided by the KPST office were: Printing of account statements (47%); Authorising eTrusti accounts (15%); Sending retirement notices (9%); Updating contributor addresses (6%); Processing benefit applications (5%).

In total, 115,874 services were provided at both the KPST office and the TAK regional offices, or 30% more than in the previous year (2014: 89,088).

THE BOARD AMENDED THE POLICY ON THE STRATEGIC ALLOCATION OF ASSETS

In its first meeting, the newly composed Board of KPST as a priority reviewed the investment strategy and performance. The amendments to the policy on strategic allocation will mean more investments in risk-managed multi-asset funds at the expense of investments in fixed income instruments given that the former are expected to have a greater potential for return - with an acceptable level of risk - compared to investments in fixed income instruments. As a result, the Board decided to redeem €100m, or 90% of the investment in the pure fixed income fund of Schroders, and to distribute proceeds: a) €30m each to Nordea SRF, AXA WFOI and BNY Mellon; and b) €10m to Kosovo treasury bonds. In addition the Board decided to publish a new call for bids for multi-asset funds of a risk-managed or risk-targeted strategy.

The performance of the risk-targeted equity fund of Tobam was judged not satisfactory for a prolonged period. This triggered the decision to redeem all the investment in this fund (€33m) and to distribute the proceeds: a) €19m to Nordea GSEF; and b) €7m each to Pictet and KBI. This redemption from Tobam makes it necessary to publish a new call for bids to replace Tobam in its equities class of a risk-managed or risk-targeted strategy.

394 THOUSAND ANNUAL STATEMENTS FOR CONTRIBUTORS

The KPST has by now generated statements for the 2015 cycle. There will be 394 thousand statements printed and mailed via the Kosovo Postal Service for their distribution to respective account holders across the country. The 2014 cycle numbered 432 thousand mailed statements, but in this cycle, in order to lower the expenses, KPST will email statements to contributors who have an eTrusti account.

Contributors are reminded that they can always get a copy of their latest statement at KPST offices in Prishtina or TAK regional offices.

RECORD INVESTMENTS IN KOSOVO: €96M

KPST investments in Kosovo reached a record amount of €95.7m at the year-end. With close to €90m, the overwhelming majority of investments in Kosovo were treasury securities issued by the Government of Kosovo, whereas €6m were in term deposits of two local commercial banks (BKT Kosovo and BPB). Compared to last year, when investments in Kosovo were €54.7m, this represents an increase of 75%. This demonstrates the readiness of KPST to increasingly invest assets within Kosovo as long as investments are in accordance with the law, benefit contributors, and are not deemed overly risky.

€4.4M WORTH OF WITHDRAWALS REPAID IN Q4

Withdrawals for Q4 2015, amounting €4.4m, were substantially higher than in the previous quarter (Q3 2015: €3.2m). This brought the total value of the withdrawals for 2015 to €19.2m, up 34.3% on the previous year when withdrawals amounted €14.3m.

The number of withdrawn accounts for the year increased from 4,049 to 4,610 (13.9%). They consisted of old-age retirements 3,360 (79%), death cases 789 (17%), and disabilities 191 (4%).

The average balance for active accounts at the end of 2015 increased by 9% to €3,103 (31.12.2014: €2,855). For all the accounts the average balance increased by 7% to €2,143 (30.12.2014: €2,006).

The average age of active contributors at the end of the year was 38 years old (31.12.2014: 38 years). The average age of all the account holders was 39 years (31.12.2014: 38 years).

48,427 eTRUSTI ACCOUNTS

The number of contributors who had accounts activated for the online service eTrusti, reached 48,427 by the end of 2015, a 30% increase on the previous year (2014: 37,222 accounts).

The main contributor to this increase was the TV promotion campaigns for this service followed by the promotion of this service to visiting clients.

The number of eTrusti users constituted 9.5% of total account holders at year-end (507,771). Considering that 85% of Kosovo inhabitants use the Internet, there is a great potential for increasing the number of subscribers to the eTrusti service.

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