

VOLUNTARY PENSION FUNDS SECTOR IN SERBIA

Second Quarter Report 2009

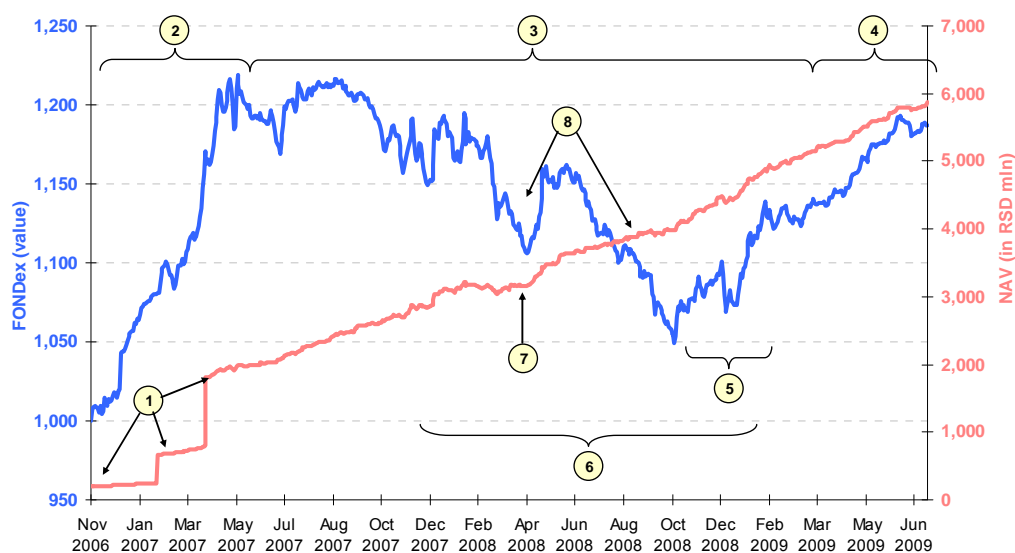
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1. INTRODUCTION

Key developments influencing VPF operations

Chart 1: Movements in FONDEX and net assets since the start of VPF operations



- 1 – Transformation of three insurance companies into VPFs
- 2 and 4 – Periods of rising prices on the Belgrade Stock Exchange (BSE)
(value of BELEX15 on 15/11/2006: RSD 1,488; on 03/05/2007: RSD 3,304; on 08/06/2009: RSD 643)
- 3 – Periods of declining prices on the BSE
(value of BELEX15 on 11/03/2009: RSD 354)
- 5 – Period of depreciation of the dinar
(RSD/EUR exchange rate on 03/10/2008: 76.69; on 28/01/2009: 96.34)
- 6 – Period of increases in the key policy rate
(on 29/10/2007: 9.75%; on 22/01/2009: 17.75%)
- 7 – Period of the greatest withdrawal of funds
- 8 – Periods with highest amounts of fund transfers

Movements in relevant quarterly indicators

At end-Q2 2009, CPI rose 8.3% year on year. In April and May, CPI rose 0.9% and 2.1% respectively and remained flat in June.

GDP growth declined in early 2009 (by contrast to a 5.4% rise in 2008) and was accompanied by falling industrial output.

The downward trend in BELEX15, the blue-chip index of the BSE, was discontinued by end-March 2009, whereafter it picked up. During Q2 2009, the index returned to its end-2008 level (soaring by almost 50%). Such trend prevailed in early Q3 as well. The value of turnover on the BSE rose from RSD 4.2 billion in Q1 to RSD 5.2 billion in Q2. Alongside changes on the BSE, the share of stock in net assets rose from 4.8% (RSD 253 million) to 6.9% (RSD 406 million), mainly in response to rising prices of shares in fund portfolios.

The dinar stabilised after its strong depreciation in January 2009. Compared to end-Q1, the euro lost 1.41% against the dinar. The highest value of the dinar was 95.44, while its lowest value came to 92.64 per one euro. The greatest portion of assets under the influence of the exchange rate were frozen foreign currency savings bonds. As the A2009 series bonds (consisting 6.5% of total assets) matured, the share of frozen foreign currency bonds went down from 35% to somewhat over 25% of total assets.

The NBS lowered its key policy rate from 16.50% to 13% in January, and subsequently to 12% in early July, which impacted on changes in the level of interest rates earned by companies on term deposits and funds on custody accounts. On 30 June 2009, term deposits accounted for 4.1% of total assets, whereas transaction accounts made up 28.1%, up by 5 pp from May 2009, in response to maturing A2009 series bonds.

In Q1 2009, three-month treasury bills appeared as a new financial instrument rather important for VPFs. These bills imply lower investment risk and offer on average a higher interest rate than that earned by companies on funds on transaction accounts. The second quarter saw 16 issues of bills at a 17% discount rate (first issue) and a 13.99% rate (the last issue). Furthermore, six-month treasury bills were issued in Q2 (there were two issues at a 13.99% rate). The share of treasury bills in net assets thus climbed from 19.1% to 34.1%.

At end-Q2, mere 1.3% of fund assets were invested in real estate. Therefore, given the current investment structure, a shock on the real estate market would produce no significant consequences in the VPF sector.

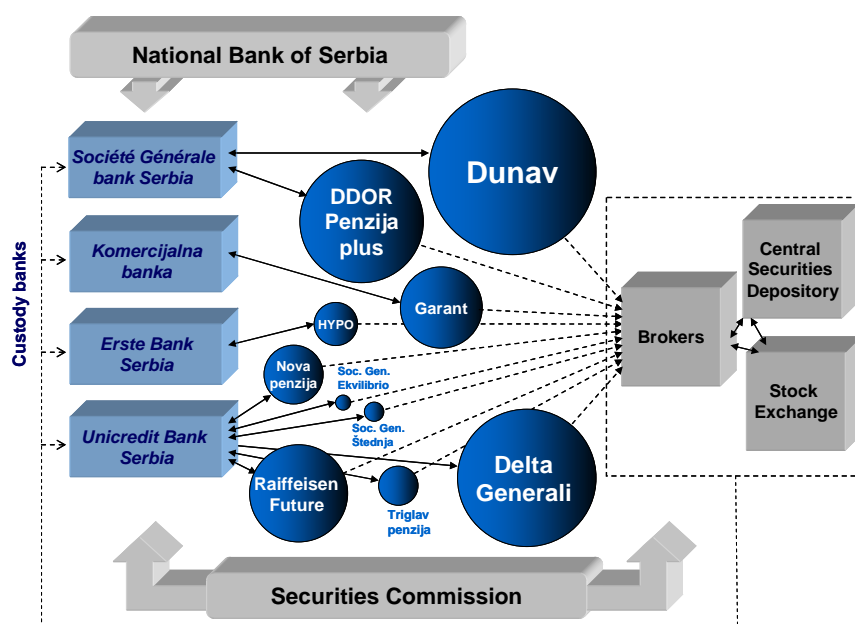
At end-Q2, VPF net assets rose 13% and 58% relative to end-Q1 and y-o-y respectively. A rise in net assets came mainly in response to payments of pension contributions and a higher investment value. The return on FONDex equalled 4.36%.

Table 1: Movements in relevant quarterly indicators

	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
CPI ¹	14.9	10.9	8.6	9.4	8.3
EUR/RSD exchange rate	78.98	76.60	88.60	94.78	93.44
Key policy rate	15.75%	15.75%	17.75%	16.50%	13.00%
BELEX15	1,783.28	1,003.77	565.18	380.83	569.27
FONDex	1,144.14	1,062.60	1,097.15	1,137.29	1,186.91

2. MANAGEMENT COMPANIES

Market participants



The VPF market currently comprises nine companies that manage 10 VPFs, 4 custody banks, 114 natural persons and 5 agent banks.

VPF management companies currently buy and sell securities through 18 brokerage houses.

¹ A rise in prices (in %) compared to the same period a year earlier.

Ownership structure

Insurance companies, banks and pension funds are qualifying owners of all management companies. Table 2 below contains an overview of the ownership structure of management companies, classified by founder's activity.

Table 2: Ownership structure by founder's activity

Management company	Qualifying holder	
	Name	Core activity
Delta Generali	Delta Generali Osiguranje, Beograd	Insurance
Raiffeisen Future	Raiffeisen Bank, Beograd	Bank
Garant penzijsko društvo	Skupina Prva, Ljubljana	Insurance
DDOR Penzija plus	DDOR Osiguranje, Novi Sad	Insurance
Dunav	Dunav osiguranje, Beograd	Insurance
NLB Nova penzija	NLB banka, Beograd	Bank
	Nova Ljubljanska banka, Ljubljana	Bank
	Skupna pokojinska družba, Ljubljana	Pension fund
Triglav penzijski fondovi	Zavarovalnica Triglav, Ljubljana	Insurance
	Triglav, družba za upravljanje, Ljubljana	Pension fund
Societe Generale Penzije	Societe Generale Banka Srbija, Beograd	Bank
	SOGECAP, Societe anonyme d'assurance sur la vie et de capitalisation, Pariz	Insurance
HYPO	Hypo Alpe-Adria-Bank, Beograd	Bank

Organisational network

The organisational network of management companies remained broadly unchanged in Q2 2009 and included 27 business units, branches and branch offices, most of which belonging to a single management company.

For the time being, most companies consist of head offices only. At end-Q2 2009, five banks² engaged by five management companies, were providing agent services. As expected, the two newly established management companies engaged their founders – banks *Société Générale* and *Hypo Alpe-Adria*, as agents. Besides, the NBS issued six licenses to natural persons to engage in dissemination of information on VPFs. Of 211 current licensees, 114 have already provided their services.

At end-Q2, total employment in VPF management companies was 198, down by almost 8% on a quarter earlier. The majority of employees are engaged in sales and marketing activities. Net assets of all funds per employee increased steadily to around RSD 29.7 million at end-Q2 2009.

² NLB banka a.d. Beograd, Raiffeisen banka a.d. Beograd, Volksbank a.d. Beograd, Hypo Alpe-Adria-Bank a.d. Beograd and Société Générale Banka Srbija a.d. Beograd.

Table 3: Net assets per employee at end-quarter

<i>In RSD million</i>				
Q2 2008	Q3 2008	Q4 2008.	Q1 2009	Q2 2009
18.6	18.2	21.3	24.2	29.7

Fees charged by management companies

As market competition strengthened, contribution fees declined. Even though regulations set the maximum fee level at 3% of the payment value, the average fee charged by management companies in Q2 was 2.46%.

The maximum management fee chargeable is 2% p.a. of NAV. It is calculated on a daily basis and deducted from fund assets. For fund members, it represents a hidden cost, but directly affects the investment unit value. All companies charge the maximum fee.

Fees paid by fund members:

- *contribution fees (up to 3% of the payment value);*
- *fund management fees (up to 2% p.a. of the net asset value of the fund);*
- *account transfer fees (based on real transfer costs).*

The level of fees charged by management companies must be disclosed in the management company's prospectus and on its website.

Total fees charged by companies in Q2 equalled RSD 41.65 million. As in the quarter earlier, total management fees exceeded total contribution fees. Namely, contribution fees were RSD 14.14 million or around 34% of total fees charged, while management fees came to RSD 27.48 million or 66% of total fees. Account transfer fees (based on actual costs of transfer) totalled RSD 0.03 million or around 0.07% of fees charged.

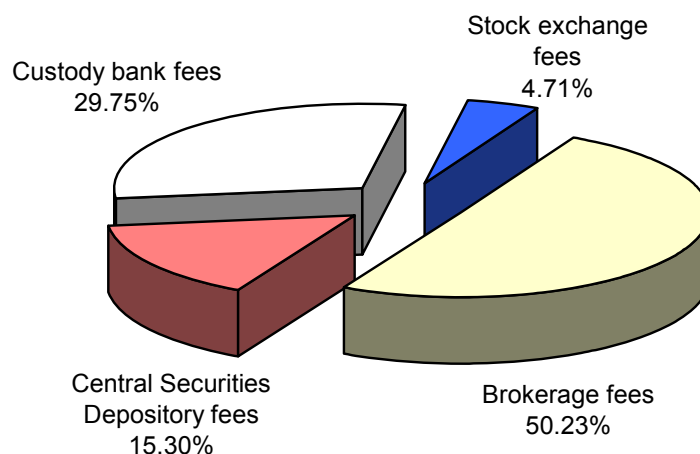
Transaction costs

In Q2 2009, transaction costs came to RSD 2.06 million. Brokerage fees kept the highest share in transaction costs (around 50%). As in a quarter earlier, the second largest share was that of custody bank fees (c. 30%), followed by fees charged by the Central Securities Depository (c. 15%).

Transaction costs are borne by management companies. In Q2, they made up around 4.96% of total fees charged for management company services.

A rise in transaction costs in Q2 as compared to Q1 came from the increased volume of fund trading and frequent issues of treasury bills.

Chart 2: Composition of transaction costs in Q2 2009



3. VPF OPERATIONS

VPF net assets

Table 4: End-quarter net assets of the sector

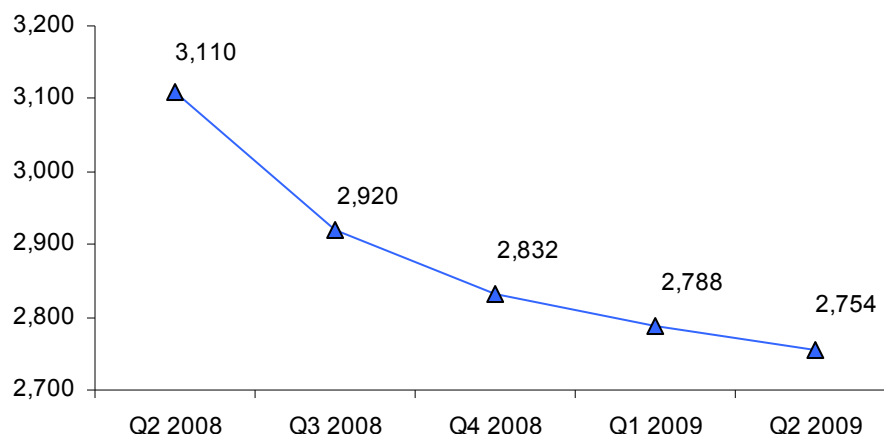
<i>In RSD million</i>				
Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
3,719.00	3,976.30	4,640.61	5,204.42	5,881.65

Net assets rose by 13% or over 58% compared to Q1 and y-o-y respectively.

In Q2, members' contributions (RSD 444 million) were the main driver behind the growth in net assets. Total contributions, after deduction of the initial charge, came to RSD 560 million, whereas withdrawals amounted to RSD 116 million. In addition to the net payment of contributions, the funds' return also impacted on growing net assets. In Q2, FONDex rose by 4.36%, while the year-to-date return came to 8.18%.

In the period of two years, the index of market concentration in the VPF sector declined from 10,000 (at the time of operation of one fund only) to 2,754, in response to the entry of new funds and an increase in the market share of funds that did not transfer their insurance assets. The continued decrease in the index value points not only to stronger competition in the VPF market, but also to high market concentration.

Chart 3: End-quarter concentration in the sector



Voluntary pension funds are classified into three groups according to their share in net asset value. No changes were recorded relative to Q1.

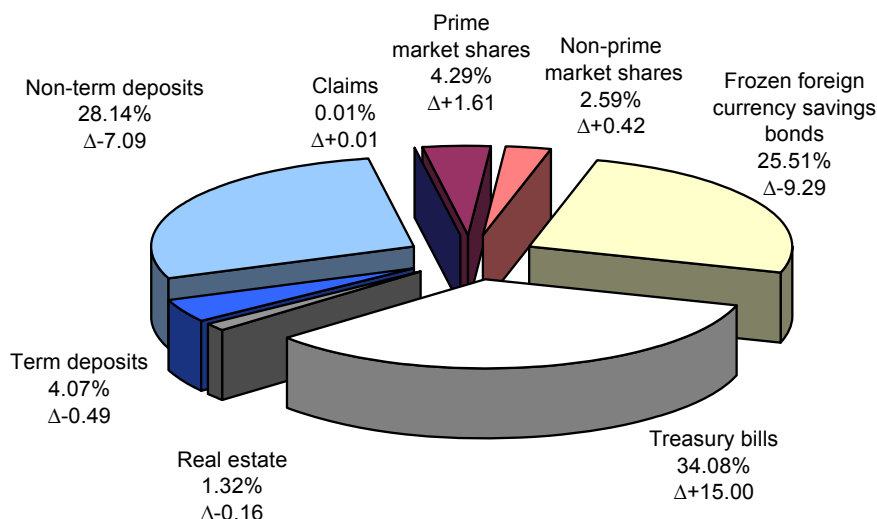
Table 5: Market share by scale

Share in net assets (%)	Number of VPFs				
	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Large (over 20)	3	2	2	2	2
Medium (5 – 19.99)	1	2	2	2	2
Small (0 – 4.99)	3	4	6	6	6

Composition of VPF assets

The composition of VPF assets changed markedly, mainly as regards a further increase in the share of treasury bills and a decline in the share of frozen foreign currency savings bonds and assets on custody accounts. Over the same period, the share of stock rose negligibly in response to rising price on the BSE. The falling stock of bonds is mainly due to maturing A2009 series bonds.

Relative to a quarter earlier, the share of prime and non-prime market stock in total fund assets rose by 1.6 pp and 0.4 pp respectively.

Chart 7: End-quarter composition of total fund assets³

At end-Q2, almost RSD 2 billion or 33% of assets were euro-denominated, while almost RSD 4 billion or 67% of assets were denominated in the domestic currency. Euro-denominated assets consisted mainly of frozen foreign currency savings bonds. Historically, this ratio remained constant at the system level. In Q2 however, euro-denominated assets declined by almost 5 pp due to a smaller share of frozen foreign currency savings bonds.

Government debt securities had the greatest share in total fund assets – 59.6%, of which frozen foreign currency savings bonds accounted for 25.5%, treasury bills for 34.1%, non-term deposits – 28.1%, shares – 6.9% and term deposits – 4.1%.

Compared to Q1, the exposure of fund assets to various types of market risks changed significantly.⁴ The percentage of assets exposed to the risk of changes in securities prices was 32.4%. Due to higher investment in shares and a smaller share of bonds, the exposure increased in respect of shares and declined in respect of frozen foreign currency savings bonds. The exposure to real estate risk was low due to a small proportion of real estate in total fund assets. Around 33% of fund assets were exposed to currency risk, somewhat less than in Q1. Frozen foreign currency savings were directly affected by exchange rate movements. The greatest proportion of assets (c. 63.7%) was exposed to interest rate risk. Frozen foreign currency savings bonds were most exposed to interest rate risk as changes in interest rates directly affect the changes in prices.

³ Changes are shown in percentage points relative to end-Q1 2009.

⁴ Breakdown of assets by the type of market risk they are directly exposed to.

Table 6: Exposure of fund assets to market risk

	Risk of changes in securities prices	Real state risk	Currency risk	Interest rate risk	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Shares	✓				17.3%	11.3%	6.3%	4.8%	6.9%
FFCS bonds	✓		✓	✓	29.9%	29.1%	33.7%	34.8%	25.5%
Treasury bills				✓	0.0%	0.1%	0.0%	19.1%	34.1%
Real estate		✓	✓		1.8%	1.7%	1.7%	1.5%	1.3%
Term deposits				✓	4.3%	4.5%	4.1%	4.6%	4.1%
Non-term deposits on dinar accounts				✓ ⁵	40.4%	49.5%	53.3%	33.7%	22.0%
Non-term deposits on foreign currency accounts			✓		6.2%	3.7%	0.9%	1.5%	6.1%

VPF securities trading

The volume of VPF trading in Q2 2009 (RSD 2,359 million) almost doubled relative to a quarter earlier (RSD 1,222 million)⁶, in response to frequent issues of three- and six-month RS treasury bills. Of the total volume of trading, around 84% concerned the purchase of treasury bills. The volume of VPF trading on the BSE declined from Q1. At the same time, the total volume of BSE and unregulated trading was on a mild increase and the share of VPFs in BSE turnover came to around 1.6%.

Relative to a quarter earlier, the value of stock turnover on the BSE rose by more than 21%, while the number of transactions rose by over 43%. The turnover in frozen foreign currency savings bonds and the number of transactions upped by 19% and around 6% respectively.

Funds continued to be active on demand side, while the purchase to sale ratio (13.95%) increased significantly compared to the previous year due to the appearance of treasury bills.

⁵ In narrow terms, interest rate risk does not exist with non-term deposits. However, its presence is evident given the high portion of these deposits in total assets, and changing interest rates in conditions of limited investment opportunities bear down significantly on the value of fund assets and return.

⁶ Data on the volume of securities purchase at government auctions during Q1 2009 were revised. In line with this, the amounts of total purchase and total trading in securities, as well as the relative purchase to sale ratio were also revised from the time of the previous *Report*.

Table 7: VPF securities trading

in RSD million

	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Volume of securities trading	160.9	298.8	475.4	1,221.7	2,358.7
Purchase of securities	107.5	234.8	342.4	1,159.6	2,200.9
Belgrade Stock Exchange	86.9	205.2	211.1	112.9	100.6
Unregulated market	18.9	23.7	131.3	65.8	122.5
Auctions of government securities	1.8	5.9	-	980.9	1,977.7
Sale of securities	53.3	64.0	133.0	62.1	157.8
Belgrade Stock Exchange	30.7	4.0	32.9	2.5	6.6
Unregulated market	22.6	60.0	100.1	59.6	151.2
Purchase to sale ratio	2.0	3.7	2.6	18.7	13.9
Share in total BSE trading	0.40%	1.53%	2.19%	2.01%	1.57%

Number and structure of VPF beneficiaries

The total number of beneficiaries⁷ at end-Q2 2009 was 162,550, up by 2.7% relative to end-Q1. The total number of membership contracts⁸ rose by around 3.8% to 211,195. The number and the relative share of beneficiaries who are members of several funds were higher than at end-Q1 (26,415 or 16.25% of total number of beneficiaries). The average amount of accumulated funds per user was RSD 36,184 or RSD 43,253 excluding beneficiaries who made no contribution.

Table 8: Number of beneficiaries by number of funds in which they are members

No. of funds	No. of beneficiaries
1	136,135
2	16,288
3	10,097
4	29
5	1

Table 9: Number of beneficiaries by number of concluded membership contracts

No. of contracts	No. of beneficiaries
1	127,190
2	24,189
3	9,540
4	1,188
5	404
6	38
7	1

⁷ The number of beneficiaries is the number of members of one or more VPFs. This number is smaller than the number of members (membership contracts) as a significant number of individuals have more than one membership contract in the same or different funds.

⁸ The number of membership contracts and the number of members refers to the sum of the number of individual membership contracts and the number of members of all pension plans.

The number of beneficiaries with at least one contribution payment (active beneficiaries) came to 65,539 or 40.32%, similar to Q1. In the last month of Q2, active beneficiaries numbered 56,283 or 34.63% of the total. This percentage remained broadly unchanged in the first two months of Q2.

Table 10: Composition of beneficiaries by payment frequency

Active beneficiaries	Period	No. of beneficiaries	Share (%)
	1 month	56,283	34.63%
	3 months	65,539	40.32%
	6 months	72,898	44.85%
	12 months	82,032	50.47%
	From start of membership (1)	135,982	83.66%
No funds on accounts (2)		26,568	16.34%
Total (1+2)		162,550	100%

Table 11: VPF share in the number of beneficiaries, by size

Share in the number of beneficiaries (%)	No. of VPFs				
	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009
Large (20 and more)	2	2	2	2	2
Medium (5 – 19.99)	3	3	3	3	3
Small (0 – 4.99)	2	3	5	5	5

A vast majority of VPF beneficiaries in Serbia are domestic persons. At end-Q2, there were 26 foreign citizens or 0.02% of total number. On the other hand, given their higher average amount of funds on individual accounts, foreign entities participated with 0.07% in fund net assets.

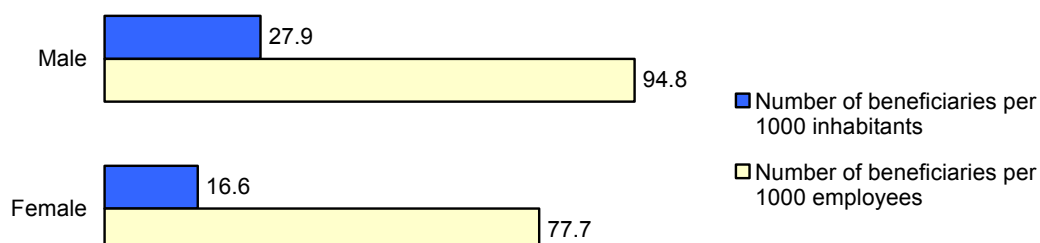
In terms of gender, men remained dominant (61.3%). However, their share in net assets was 58.6% as women, in comparison to men, had by almost 12% more funds on their individual accounts. Further, women proved to be more active members in Q2, accounting for a difference of almost 7 pp.

Table 12: Composition of beneficiaries and funds by gender⁹

Gender	No. of beneficiaries	Share (%)	Amount of funds (in RSD mln)	Share (%)	Average funds ¹⁰ (in RSD)
Male	99,696	61.4%	3,449.46	58.69%	34,600
Female	62,828	38.66%	2,427.58	41.31%	38,638

⁹ Excluding foreign nationals.

Chart 4: Ratio of the number of beneficiaries to the number of inhabitants/employees¹¹, by gender



At end-Q2, the average age of VPF beneficiary was 43.2, while beneficiaries aged 49 were the most numerous. Of the total number of beneficiaries, 19% reached the pension eligibility age (53 years).

Table 13: Age structure of beneficiaries and funds¹²

Age	No. of beneficiaries	Share (%)	Amount of funds (in RSD million)	Share (%)	Average funds (in RSD)
0-19	224	0.14%	2.58	0.04%	11,530
20-29	14,492	8.92%	347.07	5.91%	23,949
30-39	45,230	27.83%	1,699.02	28.91%	37,564
40-49	54,356	33.44%	2,162.79	36.80%	39,789
50+	48,222	29.67%	1,665.56	28.34%	34,540
50	6,003	3.69%	235.04	4.00%	39,153
51	5,591	3.44%	222.12	3.78%	39,729
52	5,779	3.56%	225.26	3.83%	38,978
53+	30,849	18.98%	983.15	16.73%	31,870
Total	158,245	100%	5,200.59	100%	

¹⁰ Excluding unallocated funds – money paid into the fund, but kept on a special account for the time being since there is not sufficient information for the allocation of contributions to members' individual accounts.

¹¹ The latest available official communications of the Serbian Statistical Office were used as the source of data on the number of inhabitants/employees, by gender/region.

¹² Excluding foreign nationals.

Chart 5: Distribution of beneficiaries by age

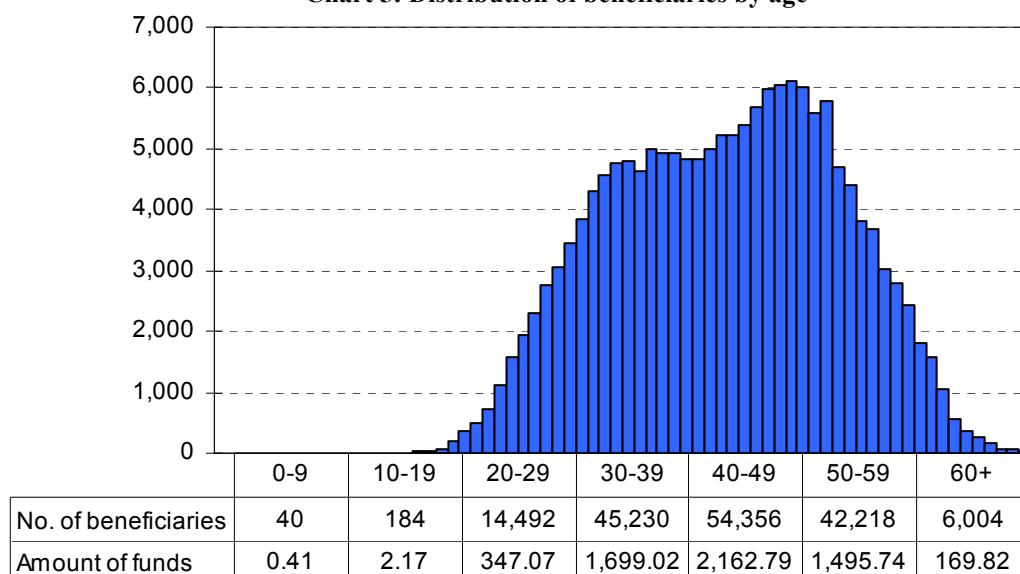


Table 14 shows the regional distribution of beneficiaries and accumulated funds. Compared to a quarter earlier, there were no major decreases in the number of beneficiaries by region, while the regions of South Bačka, Central Banat and Braničevo saw the greatest increases in percentage terms. In respect of the average amount of accumulated funds per beneficiary, the regions of Nišava and South Bačka topped the list, while declining values were registered in the regions of Rasina and Pomoravlje. The percentage of active beneficiaries in Q2 varied significantly in some regions, ranging from 13.9% in Rasina to 55.3% in Pirot.

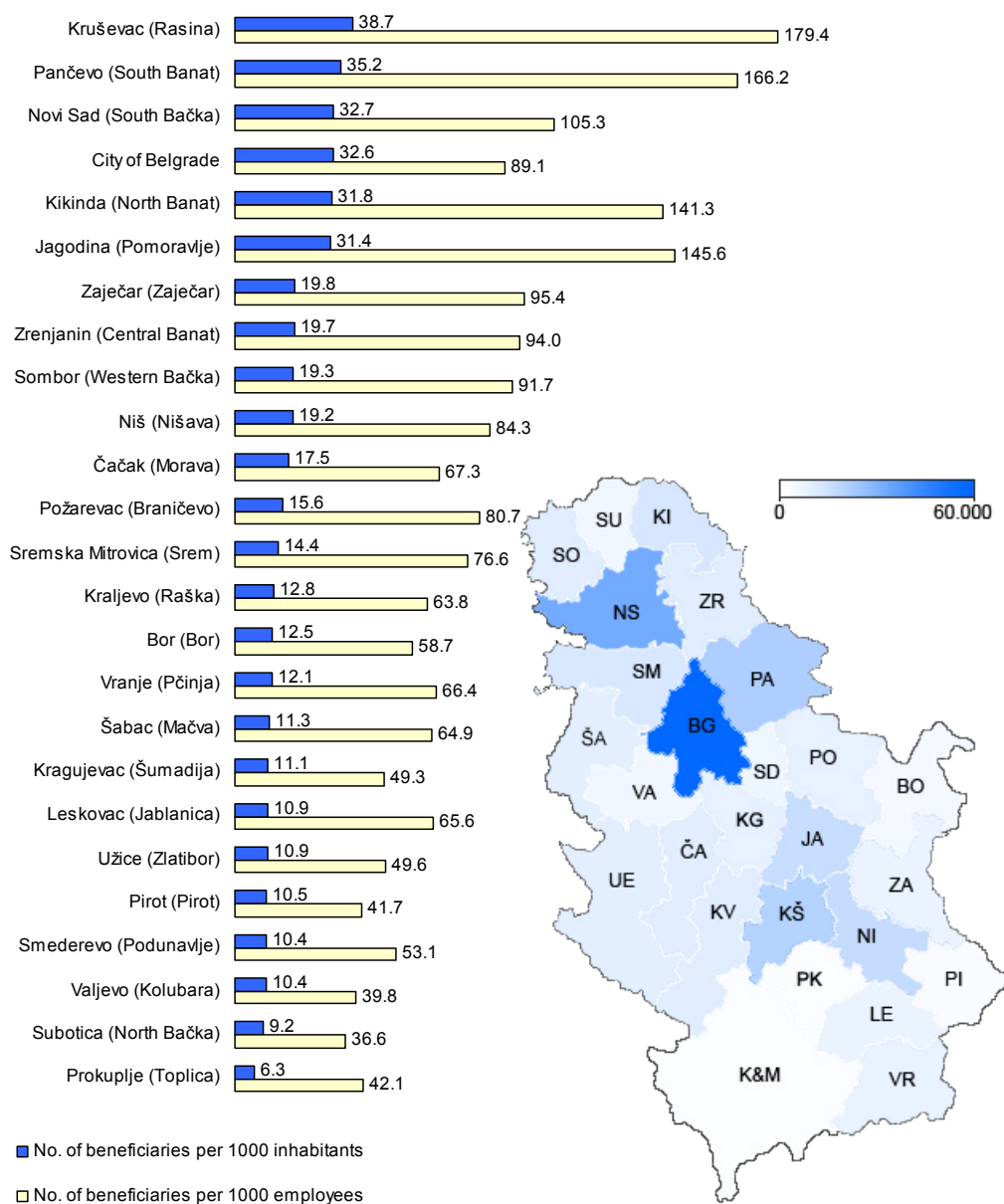
Table 14: Regional distribution of beneficiaries and funds¹³

City (region)	No. of beneficiaries	Share (%)	Amount of funds (in RSD mln)	Share (%)	Average funds (in RSD)	Ratio of average funds to gross wage ¹⁴
City of Belgrade	52,843	32.52%	2,315.80	39.41%	43,824	0.80
Novi Sad (South Bačka)	19,832	12.20%	770.87	13.12%	38,870	0.86
Pančevo (South Banat)	10,680	6.57%	418.31	7.12%	39,168	0.90
Kruševac (Rasina)	9,543	5.87%	109.66	1.87%	11,492	0.34
Niš (Nišava)	7,212	4.44%	400.56	6.82%	55,540	1.58
Jagodina (Pomoravlje)	6,845	4.21%	94.68	1.61%	13,832	0.39
Kikinda (North Banat)	4,940	3.04%	147.78	2.51%	29,914	0.76
Sremska Mitrovac (Srem)	4,735	2.91%	157.69	2.68%	33,303	0.88
Zrenjanin (Central Banat)	3,849	2.37%	164.98	2.81%	42,863	1.05
Kraljevo (Raška)	3,829	2.36%	110.89	1.89%	28,959	0.82
Sombor (Western Bačka)	3,815	2.35%	101.79	1.73%	26,682	0.67
Čačak (Morava)	3,802	2.34%	136.30	2.32%	35,848	1.00
Šabac (Mačva)	3,549	2.18%	86.25	1.47%	24,304	0.69
Užice (Zlatibor)	3,262	2.01%	117.26	2.00%	35,947	1.01
Kragujevac (Šumadija)	3,220	1.98%	97.03	1.65%	30,134	0.80
Požarevac (Braničevo)	2,993	1.84%	84.84	1.44%	28,346	0.65
Vranje (Pčinja)	2,766	1.70%	86.96	1.48%	31,439	0.96
Leskovac (Jablanica)	2,507	1.54%	88.26	1.50%	35,206	1.09
Zaječar (Zaječar)	2,494	1.53%	58.58	1.00%	23,487	0.69
Smederevo (Podunavlje)	2,125	1.31%	58.66	1.00%	27,606	0.67
Valjevo (Kolubara)	1,887	1.16%	49.03	0.83%	25,981	0.72
Subotica (North Bačka)	1,786	1.10%	87.10	1.48%	48,766	1.23
Bor (Bor)	1,673	1.03%	45.43	0.77%	27,152	0.69
Pirot (Pirot)	1,024	0.63%	34.57	0.59%	33,755	1.11
Kosovo and Metohija	687	0.42%	28.10	0.48%	40,909	N/A
Prokuplje (Toplica)	601	0.37%	24.69	0.42%	41,076	1.41
Total	162,499	100%	5,876.06	100%		

¹³ Regions are administrative counties in the Republic of Serbia, save for Kosovo and Metohija where aggregate figure is provided. Data in the table refer to entire regions and not just the specified towns. The data shown exclude beneficiaries whose residence is outside of the Republic of Serbia, or who cannot be classified in any of the regions based on available data.

¹⁴ An official communication of the Serbian Statistical Office, with the average figure for H1 2009, was used as a source of data on average gross wage per region.

Chart 6: Ranking of regions in terms of the number of beneficiaries relative to the number of inhabitants and concentration of beneficiaries by region

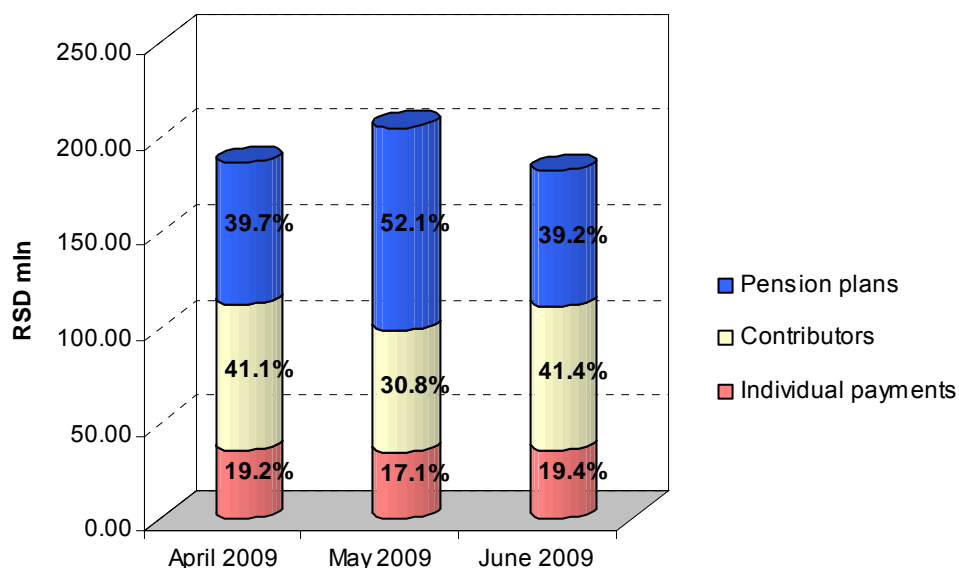


Contribution payments, withdrawals and inter-fund transfers

Total contributions paid by fund members in Q2 came to RSD 574,6 million, up from RSD 505.8 million in Q1. The average member contribution was higher than that in Q1, equalling RSD 3,341.

Of total contributions, individual payments accounted for 18.5%, employers' contributions for 37.5%, and pension plans for 44%.

Chart 7: Volume and composition of total contributions



Relative to Q1, withdrawals increased by 19.4%. Total withdrawals came to RSD 116.5 million, of which one-off withdrawals were the most dominant and scheduled withdrawals accounted for a small percentage.

Inter-fund transfers reached RSD 37.7 million, up by more than 50% relative to Q1. The transfer fee is based on the actual cost of such transfer, i.e. payment transaction costs, and is deducted from fund member's assets. These costs are not high and do not represent an impediment for fund members to transfer their moneys to another fund.

Table 15: Inter-fund transfers and permanent withdrawals*In RSD million*

	Inter-fund transfers	Withdrawals
Q2 2008	72.24	61.19
Q3 2008	74.03	50.93
Q4 2008	30.51	70.35
Q1 2009	24.95	97.56
Q2 2009	37.73	116.48

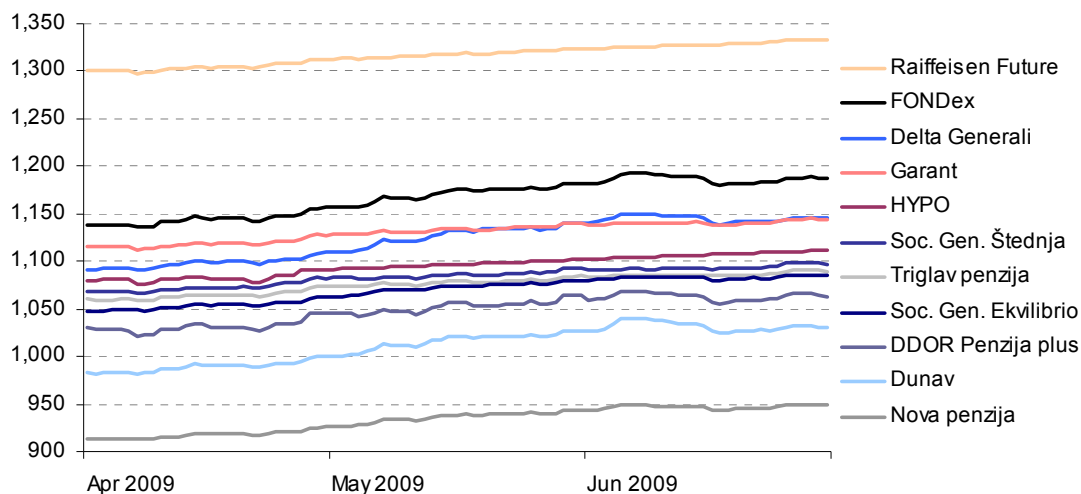
Investment unit values and fund returns

Investment unit values of all VPFs rose in Q2 as well. Negative trends on the BSE came to a halt in March 2009 and began to record positive values. The blue-chip index BELEX15 rose by almost 50% from Q1. Such movements in stock prices had a favourable impact on the investment unit value. However, given a small share of stock in the composition of fund assets, these changes produced no major impact on the increase in the investment unit value. In the same period, the dinar strengthened by 1.41%. The exchange rate of the dinar against the euro declined from 94.78 to 93.44 at the period-end, which negatively affected the growth in foreign currency-denominated assets. FONDex, the weighted average value of investment units of all funds, gained 4.36%.

Table 16: Movements in values of investment units and FONDex in Q2 2009

		Beginning of quarter	End of quarter	Maximum value	Minimum value
Investment unit value	Delta Generali	1,090.98	1,145.13	1,150.51	1,090.98
	Raiffeisen Future	1,300.99	1,333.77	1,333.91	1,297.80
	Garant	1,116.27	1,143.43	1,145.05	1,112.64
	DDOR Penzija plus	1,030.91	1,062.32	1,068.65	1,021.09
	Dunav	982.36	1,031.32	1,040.41	982.04
	Nova penzija	912.50	949.10	949.68	912.50
	Triglav penzija	1,060.00	1,089.80	1,091.20	1,058.24
	HYPO	1,080.15	1,111.82	1,111.82	1,075.13
	Societe Generale Štednja	1,068.94	1,097.19	1,098.69	1,066.23
	Societe Generale Ekvilibrio	1,047.56	1,085.82	1,086.01	1,047.56
FONDex		1,138.29	1,186.91	1,135.92	1,193.05

Chart 8: Movements in values of investment units and FONDEX in Q2 2009



At-end Q2 2009, seven funds operating for over a year were obliged to report their returns for the past year as well as from the start of operations until 30 June 2009.

Table 17: FONDEX return

Since the start of operations ¹⁵	For the past year				
	30/06/2008	30/09/2008	31/12/2008	31/03/2009	30/06/2009
6.7%	-2.5%	-11.9%	-7.0%	0.4%	3.7%

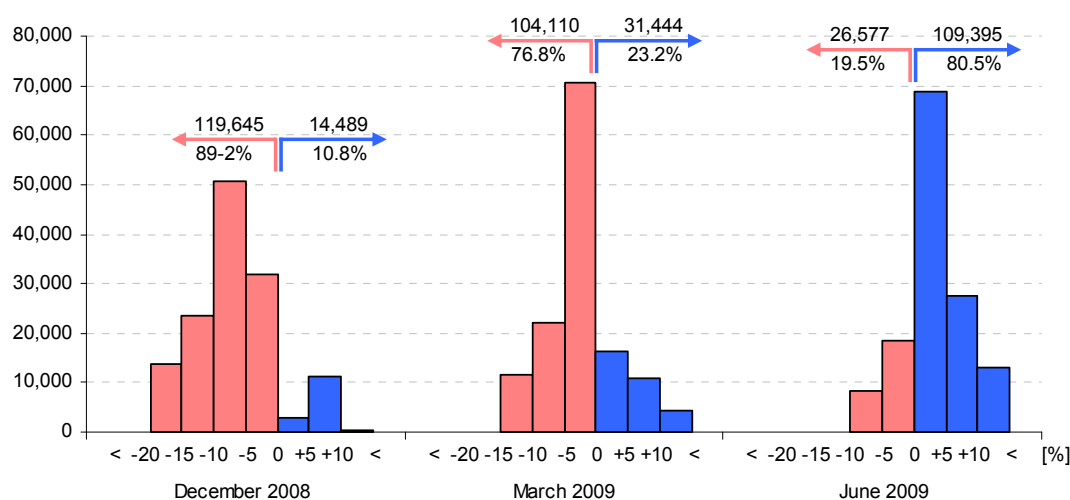
The purpose of investing VPF assets is to increase the value of invested funds, while at the same time minimizing the risks involved. Although all companies aim to earn maximum possible returns to the benefit of fund members, the investment risk is never entirely eliminated and may even lead to negative returns. The returns earned by the fund are distributed to individual accounts of all members.

¹⁵ Since the start of operations, FONDEX returns are given at the annual level. Nominal return in the same period came to 18.7%.

4. CONCLUSION

What an average citizen is interested in most is the return of their fund, and/or return on their individual accounts. It is worth knowing that members in the same fund may have varied return on their individual accounts as the level of return depends primarily on the period when contributions were made and not on the level of total contributions. It is on the example of the past year that all pension fund members should learn that a decline in the value of accumulated funds in pension funds is not only possible, but characteristic of all pension funds in the world. This is why the withdrawal of funds should be planned several years ahead. Furthermore, the Law envisages the possibility of withdrawal at the age of 53–70. Several years (or a decade) before retirement, funds should be transferred to a pension fund with overly conservative investment policy¹⁶ as funds are thus greatly protected from events on the stock exchange.

Chart 9: Number and share of beneficiaries by interval of return¹⁷



At end-2008, 89% of VPF beneficiaries posted a negative rate return. The return on individual accounts of the majority of them ranged between -5% and -10%. At end-Q1 2009, 77% of beneficiaries had a negative rate of return (from

¹⁶ Investment policy when the major portion of fund assets are invested in low-risk financial instruments with small changes in values. Given a lower risk, the return on these instruments is not high, but the decline in their values is not high either.

¹⁷ The return on individual accounts was calculated at the *Modified Dietz* method. For beneficiaries with several accounts, the average return per each account was calculated, weighted by the amount of accumulated funds.

-5% to 0% for the majority), while end-Q2 2009 saw over 80% of beneficiaries with a positive rate of return (between 0% and 5% for the majority).

Due to the entrance fee calculated into contributions, all members starting with contribution payments have a negative rate of return. As the time passes and funds operate positively, the yield curve shifts.

At end-Q2, the return in nominal terms was earned by 80% of beneficiaries, up from 23% in Q1. From a member's viewpoint, the loss on funds invested occurs when funds are withdrawn, meaning that possible loss could be incurred by those members who decide to withdraw funds at the time of a negative rate of return. Members' expectations to have positive return on their individual accounts at any time result in a general decline in return in the VPF sector and represent a serious "exam" that numerous funds in the region have failed to pass. The time will show whether we will make a similar mistake.