



NATIONAL BANK OF SERBIA
INSURANCE SUPERVISION DEPARTMENT
PENSION FUNDS
SUPERVISION DIVISION

VOLUNTARY PENSION FUNDS SECTOR IN SERBIA

Fourth Quarter Report 2020

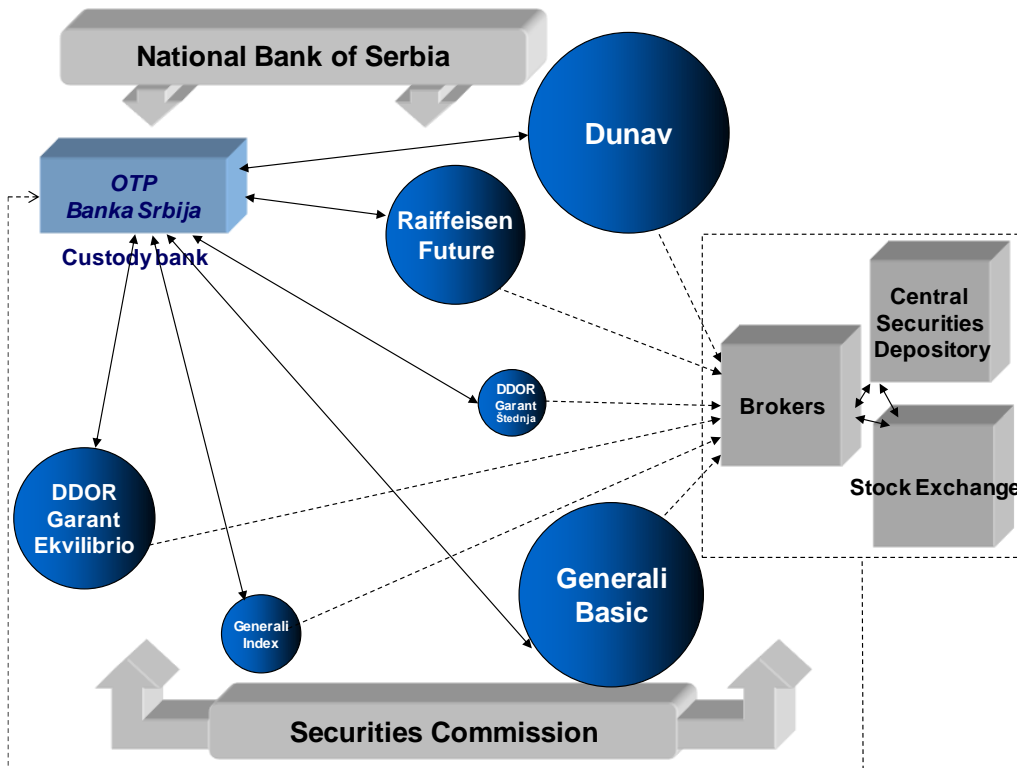
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1 Market participants

At end-Q4 2020, the market of voluntary pension funds (VPFs) included four companies managing seven VPFs, one custody bank, five intermediary banks and one insurance brokerage undertaking¹.

Diagram: Market participants



At end-Q4 2020, total employment in VPF management companies was 122, down by one person from a quarter earlier.

The NBS licences sales agents, who passed professional examinations and fulfilled other requirements, to disseminate information about VPF operation. By end-Q4 2020, a total of 925 sales agent licences were granted.

Management companies, banks and insurance undertakings as brokers may engage sales agents. At end-Q4 2020, management companies hired 103 persons, intermediary banks 499 persons and insurance undertaking 43 persons.

¹ Raiffeisen Bank a.d. Beograd, OTP banka Srbija a.d. Beograd, NLB banka a.d. Beograd, Addiko Bank a.d. Beograd and Sberbank a.d. Beograd, joint-stock insurance undertaking DDOR Novi Sad, Novi Sad.

2 Net VPF assets

At end-Q4 2020, net VPF assets equalled RSD 47 bn. In Q4 net assets expanded by 2.5% q-o-q and by 3.9% relative to end-2019. The changes in the value of net assets reflect net contributions², withdrawals and investment returns. In Q4 2020, total contributions amounted to RSD 879.7 mn, withdrawals to RSD 483.7 mn and investment returns to RSD 780.6 mn.

At end-2020, net assets equalled RSD 47 bn.

End-of-period net assets of the VPF sector

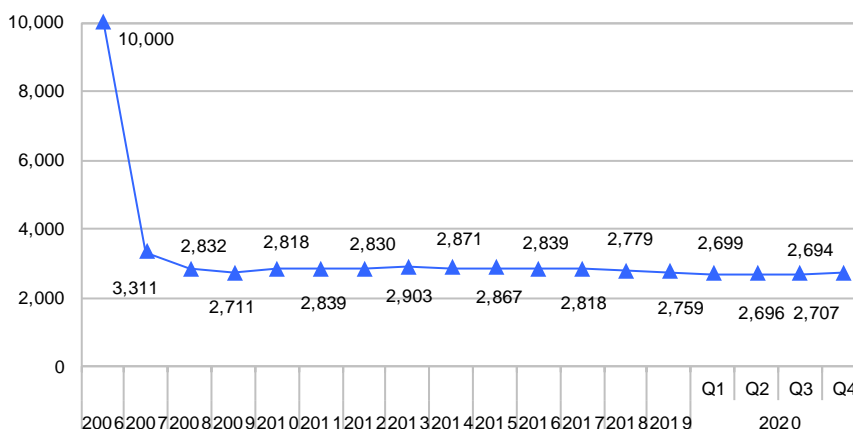
(in RSD bn)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020			
										Q1	Q2	Q3	Q4
9.9	12.5	16.1	19.7	23.6	28.9	32.8	36.2	40.2	45.2	44.6	45.1	45.9	47.0

Source: National Bank of Serbia.

End-of-period sector concentration

(Herfindahl-Hirschman Index)



Source: National Bank of Serbia.

Measured by HHI, market concentration in the sector³ at end-Q4 2020 amounted to 2,707 points, which indicates high concentration in the VPF market.

Number of funds by groups divided by market share

(in units)

Share in net assets (%)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020			
											Q1	Q2	Q3	Q4
Large (20 and above)	3	2	2	2	2	2	2	2	2	2	2	2	2	2
Medium (5 - 19.99)	1	2	2	2	2	2	2	2	2	2	2	2	2	2
Small (0 - 4.99)	4	5	5	2	2	3	3	3	3	3	3	3	3	3

Source: National Bank of Serbia.

² Net contributions are total contributions minus the front-load fee.

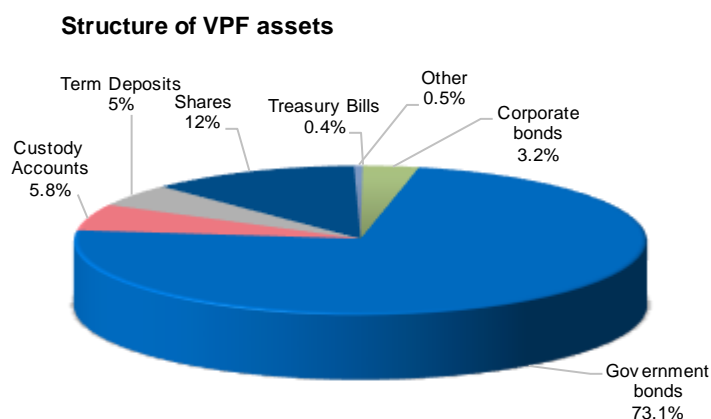
³ In terms of the share in total net assets.

According to the size of net assets of a VPF relative to total net assets of the sector, two funds were classified as “large” and two as “medium”. Together, they held 93% of the market share, with the largest fund accounting for around 39%.

3 Structure of VPF assets

At end-Q4 2020, the structure of investment of VPF assets remained broadly unchanged from the previous period. Government bonds accounted for the major part of VPF assets – 73.1%. Balances held in custody accounts and term deposits with banks made up 10.8%, shares 12%, T-bills 0.4%, and corporate bonds 3.2% of total VPF assets. Investment in units of open-end investment funds and receivables made up the category “other” which accounted for 0.5%.

The bulk of assets was invested in government debt instruments – 73.5%.



Source: National Bank of Serbia.

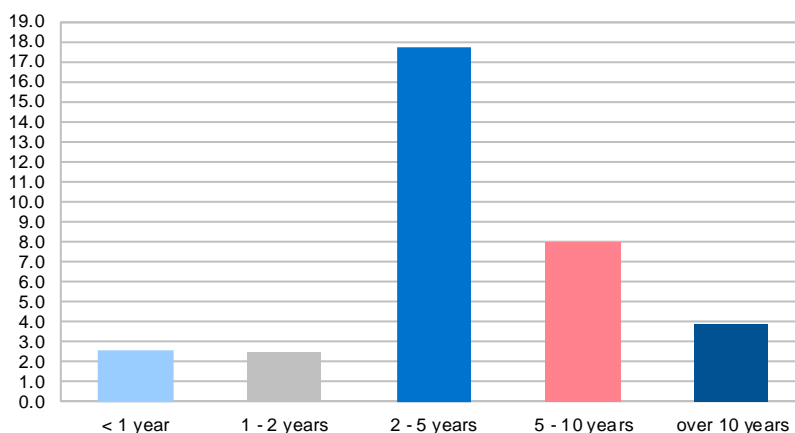
The portfolio of government debt instruments (bonds and T-bills) kept the dominant position in total fund assets at the end of this period as well, with a mild downward trend in the share of these financial instruments in fund assets from 77.1% at end-Q3 to 73.5%. In addition, at end-2019, the portfolio of government debt instruments consisted only of Serbian government bonds, accounting for 78.2% of total fund assets. However, at end-2020, besides the mentioned bonds, investments were made in T-bills as well, hence their joint share in total fund assets accounted for 73.5%. Therefore, relative to end-2019, the share of government debt instruments in total fund assets decreased by around 6%.

On the other hand, aggregate exposure to the shares of domestic legal persons increased from the end of the previous quarter – from 10.5% to 12% of total fund assets as a result of recent trends in the Serbian financial market. Moreover, the share of domestic legal persons in total fund assets increased from end-2019, when it accounted for 11.1%.

At end-Q4 2020, 7.6% of government debt instruments were with the maturity of up to one year, 7.3% between one and two years, 51% between two and five years, 23% between five and ten years, and 11.1% over ten years.

The average maturity of assets⁴ invested in government debt instruments was 4.29 years.

Maturity structure (government fixed income securities)
(in RSD bn)



Source: National Bank of Serbia.

At end-Q4 2020, 85.5% of total assets were in dinars and 14.5% in a foreign currency (EUR). Relative to end-2019, fund assets were more exposed to foreign currency, accounting for 12.7% in total assets at end-2020. It should be noted that the changes in the structure of the fund assets in the previous year, including the currency exposure, are the result of the VPF efforts to minimise risks in significantly changed business circumstances due to the global coronavirus pandemic.

4 Return on investment

At end-Q4 2020, the value of FONDex⁵ reached 3,094.52 points⁶. The rise in FONDex is the weighted average return on all funds, and it came at 1% for the past year. Since the start of operation⁷, FONDex return has equalled 8.3%. Given the structure of VPF investment, the return is influenced by: the change in the yield curve on government debt instruments⁸, change in the value of shares, change in investment unit values of open-end funds, level of the key policy rate and banks' interest rates, and changes in the dinar exchange rate against the euro and the dollar.

In Q4 2020 the primary market of dinar-denominated government debt instruments saw the issue of two-year securities (RSD 1.2 bn) at the rate of 2%, five-year (RSD 4.6 bn) at the rate of 2.6%, and twelve-year securities (RSD 45.4 bn) at the rate of 3.9%.

⁴The maturity of instruments weighted by their share in total investment in government debt instruments.

⁵ FONDex is the index which indicates movements in investment units of all VPFs in the market.

⁶ The initial FONDex value on the first business day of the first VPF, 15 November 2006, was 1,000.

⁷ Annual rate.

⁸A decline in interest rate leads to an increase in the prices of debt instruments and vice versa. The prices of longer-maturity instruments are more sensitive to interest rate changes.

**Market value of issued dinar-denominated government debt instruments,
by maturity**
(in RSD bn)

Maturity	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
3m	-	-	-	-	-
6m	-	-	-	-	-
12m	-	-	34.4	-	-
18m	-	-	-	-	-
24m	-	-	38.9	9.0	12
36m	-	-	54.0	-	-
60m	13.1	20.1	26.5	13.2	4.6
84m	24.1	-	-	-	-
120m	-	-	-	-	-
144m	-	37.5	4.8	15	45.4
Total	37.2	57.6	158.5	23.6	51.2

Source: Ministry of Finance.

**Accepted rate of issued dinar-denominated government debt instruments,
by maturity**

Maturity	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
3m	-	-	-	-	-
6m	-	-	-	-	-
12m	-	-	18%	-	-
18m	-	-	-	-	-
24m	-	-	2.0%	2.0%	2.0%
36m	-	-	2.2%	-	-
60m	2.3%	2.6%	2.6%	2.7%	2.6%
84m	2.7%	-	-	-	-
120m	-	-	-	-	-
144m	-	3.4%	3.9%	4.0%	3.9%

Source: Ministry of Finance.

There was no issue of euro-denominated government debt instruments in Q4 2020.

Market value of issued euro-denominated government debt instruments, by maturity
(in EUR mln)

Maturity	Q3 2019	Q4 2019	Q12020	Q2 2020	Q3 2020	Q4 2020
12m	-	-	-	-	-	-
24m	-	-	59.9	40.2	-	-
36m	-	58.9	-	-	-	-
60m	-	-	4.4	-	-	-
84m	-	-	-	-	-	-
120m	-	34.5	-	-	-	-
144m	-	-	100.6	-	-	-
180m	-	-	-	-	-	-
240m	-	-	161.2	-	-	-
Total	-	93.4	326.0	40.2	-	-

Source: Ministry of Finance.

Accepted rate of issued euro-denominated government debt instruments, by maturity

Maturity	Q3 2019	Q4 2019	Q12020	Q2 2020	Q3 2020	Q4 2020
12m	-	-	-	-	-	-
24m	-	-	0.5%	0.5%	-	-
36m	-	0.6%	-	-	-	-
60m	-	-	1.1%	-	-	-
84m	-	-	-	-	-	-
120m	-	1.9%	-	-	-	-
144m	-	-	1.9%	-	-	-
180m	-	-	-	-	-	-
240m	-	-	3.0%	-	-	-

Source: Ministry of Finance.

The prices of shares in the Belgrade Stock Exchange (BSE), measured by the BELEX15 index⁹ rose by 8.0% at end-Q4 2020 (the value of the index was 748.61 at end-December). The index fell by 6.6% over the past year.

The key policy rate equalled 1% at end-December 2020. The level of interest rates earned by funds on dinar assets in custody accounts mirrored the movements of the key policy rate.

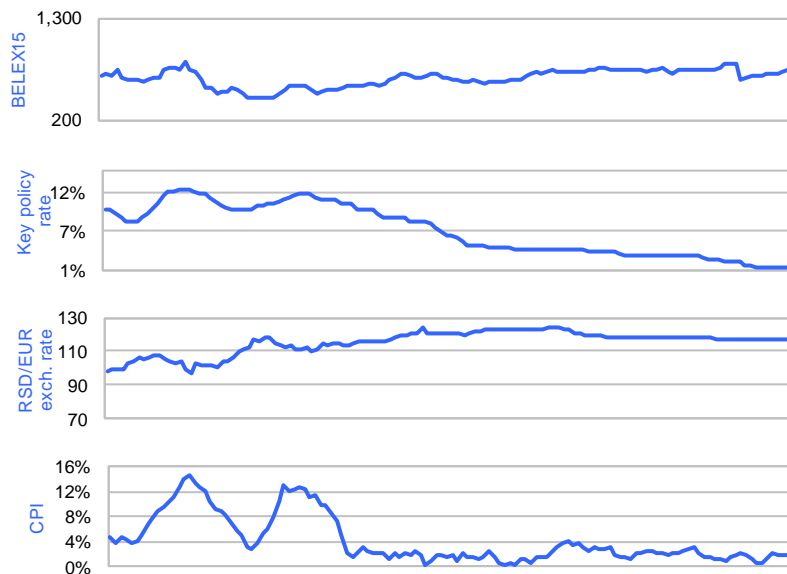
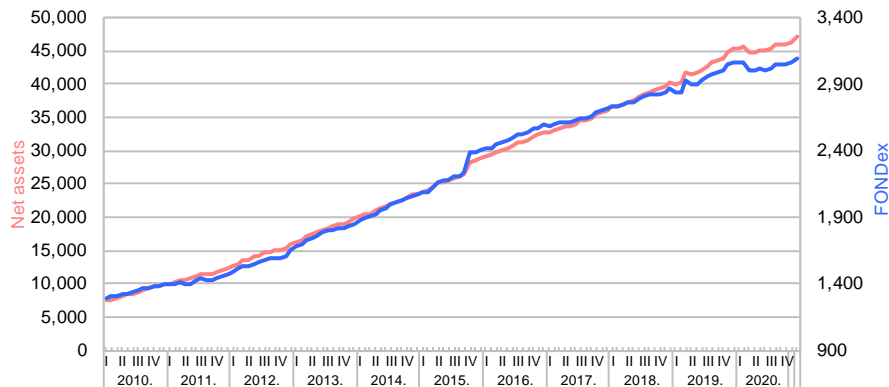
In Q4 2020, the dinar stayed unchanged vis-à-vis the euro, coming at the level of RSD 117.58 per euro at the end of this quarter. In the same period, the dinar gained 4.5% against the US dollar.

Price growth rates came at 0.1%, 0% and 0.1% in October, November and December, respectively. Y-o-y, consumer prices gained 1.3% in December 2020. At the level of 2020, consumer prices gained 1.6% on average compared to 2019.¹⁰

⁹ Of the total investment in shares, the bulk pertained to the shares covered by BELEX15, which means that BELEX15 is a relevant benchmark for the shares' portfolio.

¹⁰ Source: Statistical Office of the Republic of Serbia.

Movements in net assets, FONDEX and key indicators of VPF
(in RSD mn, units, %)



Source: National Bank of Serbia, Belgrade Stock Exchange, Statistical Office.

5 Fees charged by management companies

The Law on Voluntary Pension Funds and Pension Schemes sets out that management companies charge fees for their services and account transfer to fund members. Management company fees entail contribution and management fees. The account transfer fee may not exceed the actual transfer costs.

Though fees are among the parameters that members should consider when choosing a fund, they should not be viewed in isolation. The level of fees is contingent on the fund's investment policy and its investment activity. As a rule, more active funds, intended for younger persons who will pay contributions over a longer horizon, invest more in more complex instruments, assuming a higher degree of risk. Such funds are expected to post higher returns, hence their fees are higher. On the other hand, a fund investing passively in safer financial instruments should charge lower fees. A fund's investment policy, i.e. planned investment of the fund members' assets, the expected

return, the level of risk assumed by funds (and members), and fees charged by companies, should all be taken into account when opting for a fund.

The contribution fee is paid only once, as a front-load fee. Though visible in the first instance, it is not the largest cost incurred by a member.

The total amount of contribution fees paid in Q4 2020 amounted to RSD 20.4 mn and the level of the fee in the same period was 2.3% on average. In annual terms, the total amount of contribution fees paid in 2020 amounted to RSD 76.2 mn, up by 6.2% relative to 2019, when it amounted to RSD 71.8 mn.

The management fee is calculated daily against the value of net VPF assets and is included directly in the investment unit value, meaning that the calculated and published investment unit value is exclusive of the management fee.

At end-Q4 2020, the total value of management fees equalled RSD 144.9 mn, which is around 88% of the total fees charged.

Over the past year, the management fee equalled RSD 567.9 mn, while profit of RSD 530.4 mn was earned in the same period.

Fees charged by management companies

(in RSD mn)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020			
													Q1	Q2	Q3	Q4
Contribution fee	56.9	54.9	59.4	57.9	60.1	58.7	55.4	53.0	56.8	61.0	66.3	71.8	18.4	18.6	18.9	20.4
Management fee	73.5	117.3	170.7	220.0	284.1	357.8	432.8	514.9	614.4	678.7	474.0	526.7	140.6	139.6	142.8	144.9

Source: National Bank of Serbia.

6 Trading in securities

VPF trading volumes equalled RSD 4.3 bn in Q4 2020.

The average share of VPFs in BSE trading was 21% during the quarter. In annual terms, the smallest share of VPFs in BSE trading was recorded in Q2 2020, when it amounted to only 3.3%. The contraction in VPF activity in the mentioned quarter, in the regulated BSE market, reflected the economic downturn, caused by the global coronavirus pandemic.

7 Transaction costs

Transaction costs incurred in the purchase, sale and transfer of securities (Central Securities Depository fees, stock exchange fees, tax charges) and the costs of current maintenance of real estate property that fund assets are invested in are charged against fund assets. Other costs are charged against the assets of management companies.

VPF securities trading

(in RSD bn)

	2012	2013	2014	2015	2016	2017	2018	2019	2020			
									Q1	Q2	Q3	Q4
Securities trading	13.2	12.9	21.2	14.5	11.5	24.2	16.1	48.7	15.4	2.0	4.7	4.3
Purchases	7.1	9.0	12.1	7.9	6.4	14.7	9.3	27.1	8.5	10	2.4	19
Belgrade Stock Exchange	0.3	0.4	0.5	0.9	1.1	3.7	2.7	3.2	1.3	0.3	0.3	0.9
Unregulated market	0.1	0.7	0.9	1.8	1.1	5.8	3.2	16.7	4.5	0.6	1.7	0.8
Auctions of government secur	6.7	7.9	10.7	5.2	4.2	5.1	3.4	7.1	2.7	0.2	0.4	0.3
Sales	4.2	2.0	5.4	3.6	3.0	7.4	5.5	19.6	6.4	0.4	2.2	2.1
Belgrade Stock Exchange	0.3	0.6	0.3	0.5	1.9	2.7	3.2	14	10	0.1	0.7	1.4
Unregulated market	3.9	1.4	5.0	3.2	1.1	4.7	2.3	18.1	5.4	0.4	1.5	0.7
Maturity	2.0	2.0	3.7	2.9	2.1	2.2	1.3	2.1	0.5	0.5	0.9	0.3
Purchase to sale and maturity ratio	1.1	2.3	1.3	1.2	7.5	1.5	1.4	1.3	1.2	1.1	1.0	0.8
Share in total BSE trading (in%)	2.6%	3.4%	4.1%	6.1%	6.7%	33.0%	9.4	5.1	10.6	3.3	13.8	21.0

Source: National Bank of Serbia, Belgrade Stock Exchange.

The total transaction costs in Q4 2020 amounted to RSD 2.3 mn. In the same period, Central Securities Depository fees had a greater share in transaction costs compared to stock exchange fees, while brokerage fees made up the bulk of costs paid by management companies from their assets compared to custody bank fees. In addition, the total transaction costs in 2019 amounted to RSD 17.2 mn, while in 2020 they amounted to RSD 10.3 mn, down by around 40%, which is a result of the extraordinary effect that the coronavirus pandemic had on the financial market and contraction of VPF investment activity.

Amount of transaction costs

(in RSD mn)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020			
											Q1	Q2	Q3	Q4
Total	9.5	7.0	4.7	6.0	6.2	5.6	7.3	10.5	8.3	17.2	3.4	2.3	2.4	2.3
Brokerage fees	4.5	2.9	2.0	2.5	2.0	1.3	2.3	4.4	3.0	8.0	1.2	1.2	0.7	0.7
Custody bank fees	2.4	2.2	1.5	1.9	2.0	2.0	2.0	1.9	1.8	3.1	0.8	0.4	0.6	0.5
Stock exchange fees	1.1	0.8	0.3	0.6	0.6	0.8	1.0	1.8	1.3	1.9	0.4	0.2	0.3	0.4
Central Securities Depository fees	1.5	1.1	0.9	0.9	1.6	1.6	2.0	1.8	1.6	3.4	1.0	0.2	0.6	0.5
Other fees	-	-	-	0.1	0.0	-	0.0	0.6	0.6	0.7	0.2	0.2	0.3	0.2

Source: National Bank of Serbia.

8 Number and structure of VPF users

At end-Q4 2020, 204,969 users¹¹ were in the accumulation phase¹², up by 3,382 relative to the same period in 2019. Total VPF membership contracts¹³ stood at 279,495.

VPF users accounted for 9.5%¹⁴ of the total number of employees.

¹¹The number of users is the number of people who are members of VPF(s). This number is lower than the number of membership contracts, as there is a significant number of users with more than one membership contracts in one or several VPFs.

¹²VPF membership has two phases – the accumulation phase (when contributions are made) and the withdrawal phase (when the accumulated funds are withdrawn).

¹³The number of membership contracts is the sum total of individual membership contracts and the number of members of all pension schemes.

¹⁴The source for the number of employees: NBS.

Number of contracts and users

(in thousands)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020			
											Q1	Q2	Q3	Q4
No of contracts	220.4	234.4	240.4	244.5	252.1	258.1	250.5	253.9	261.7	275.8	277.6	277.7	278.5	279.5
No of users	166.8	174.9	179.8	183.5	188.0	190.5	183.6	185.4	192.3	201.6	202.9	203.0	203.6	205.0
Percentage of active users (in %)	43.9%	35.1%	30.5%	30.3%	31.3%	25.3%	28.5%	33.6%	33.4%	34.4%	31.3%	32.1%	33.5%	35.3%

Source: National Bank of Serbia.

Structure of users by payment dynamics

(in units and %)

	Period	No of users	Share (%)
3 months	76,610	37.4%	
6 months	79,285	38.7%	
12 months	84,765	41.4%	
From the start of membership (1)	182,694	89.1%	
No holdings (2)		22,275	10.9%
Total (1+2)		204,969	

Source: National Bank of Serbia.

The amount of accumulated funds depends on the amount of contributions, return earned by funds, level of fees, and the length of the accumulation phase. As the level of contributions and the period of accumulation increase and funds earn returns, average balances in members' individual accounts go up. The average amount of funds accumulated in the accounts of members who have made at least one contribution payment was RSD 257 thousand. At end-Q4 2020, the number of users who were members of two or more VPFs was 41,648 or around 20% of the total number of users.

Average accumulated funds at end-period

(in RSD thousand)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020			
										Q1	Q2	Q3	Q4
70.5	84.5	105.3	127.3	148.3	179.4	200.6	219.3	235.8	239.9	247.4	249.9	253.0	257.4

Source: National Bank of Serbia.

In terms of gender composition and the respective amounts of funds, Q4 2020 saw no significant changes relative to prior periods. Men remained dominant, accounting for 58% of all users.

Number of users by number of funds in which they are members
(in units)

No of funds	No of users
1	163,321
2	34,542
3	6,857
4	223
5	21
6	3
7	2
Total	204,969

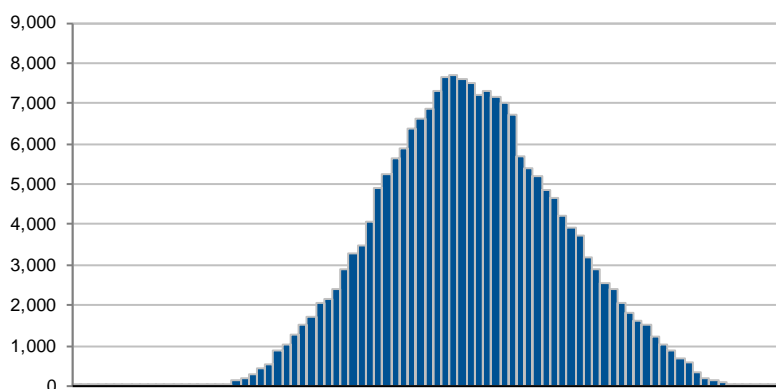
Source: National Bank of Serbia.

Number of users by membership contract
(in units)

No of contracts	No of users
1	148,807
2	42,766
3	9,499
4	3,117
5	551
6	178
7	41
8	9
9	2
Total	204,969

Source: National Bank of Serbia.

Distribution of users and accumulated funds by age
(in units, RSD)



	0-9	10-19	20-29	30-39	40-49	50-59	60+
No. of users	209	455	9,856	39,940	72,118	54,829	26,996
Amount of funds (mln)	8.77	12.75	502.47	6,194.44	19,556.42	15,729.72	4,435.04
Average holdings	41,962	28,022	50,981	155,094	271,173	286,887	164,285

Source: National Bank of Serbia.

At end-Q4 2020, the average age of VPF users was around 47 years, with users aged 40–60 making up the dominant share of around 62%. The percentage of users above the age of 53 was similar as in prior years, accounting for 29.8%, while the percentage of users above the age of 58 accounted for 17.2%.

9 Contributions, withdrawals and transfers

Of total contributions in Q4 2020, individual payments accounted for 39.9%, employer contributions for 33.6% and pension schemes for 26.5%. The total contributions to VPFs in Q4 2020 amounted to RSD 879.7 mn. In addition, the total contributions to VPFs in 2020 amounted to RSD 3.5 bn, while in 2019 they stood at RSD 3.9 bn. Hence, it can be said that contributions maintained a certain stability and continuity, despite the changed circumstances caused by the spread of the coronavirus pandemic.

Net contributions came at RSD 3.4 bn in 2020.

Total contributions

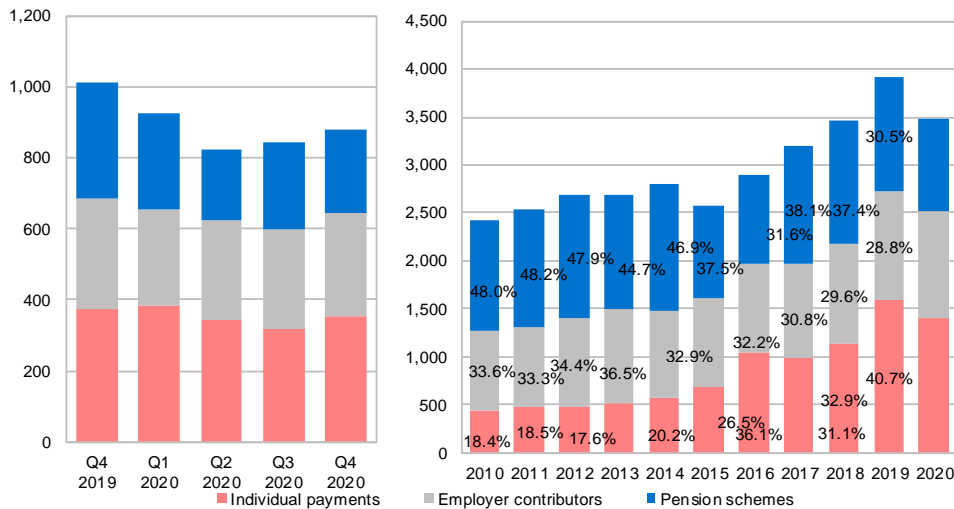
(in RSD bn)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020			
										Q1	Q2	Q3	Q4
2.43	2.53	2.70	2.70	2.80	2.58	2.89	3.19	3.47	3.92	0.93	0.83	0.84	0.88

Source: National Bank of Serbia.

Volume and structure of total contributions

(in RSD mn, %)



Source: National Bank of Serbia.

Although most contributions are made through employers who, in this way, display a high level of responsibility towards their staff, there is a noticeable increase in the number of individual contributions. There is an ample potential for further growth in the membership base, both through individuals who increasingly recognize the importance of saving for old age, and through companies, especially having in mind that only every tenth employee has a VPF account. This way, employees and employers can save up since contributions from employer's funds up to RSD 5,984¹⁵ per employee per month are exempt from the household income tax and contributions for mandatory social insurance. Payments in the same amount made by the employer through wage

¹⁵Under the Government decision, this amount is adjusted for previous-year inflation once a year. The amount determined for 2021 is RSD 6.062.

garnishment are also tax-exempt. This represents an additional incentive to employees and employers to direct a part of the wage to saving in VPFs.

Withdrawals are generally lump-sum. Since the withdrawals are made by the members who fulfil the requirements, and are usually not long-standing fund members, their accumulated sum is relatively small, and this kind of withdrawals is expected, even though it contradicts the nature of VPFs which assumes the use of accumulated funds over a longer period. The share of scheduled and other types of withdrawals rises with the lengthening of the accumulation periods and increase in the accumulated sums. In Q4 2020, lump sum withdrawals accounted for the bulk of withdrawals (RSD 406.1 mn), while scheduled and partial withdrawals measured RSD 77.5 mn.

Total withdrawals

(in RSD mn)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020			
										Q1	Q2	Q3	Q4
458.1	517.6	751.7	945.2	1213.4	1226.2	1195.6	1342.4	1412.0	1679.8	558.7	492.3	625.0	483.7

Source: National Bank of Serbia.

Total withdrawals rise year after year, reaching RSD 483.7 mn in Q4 2020. This phenomenon is a normal result of system development. Namely, as contributions and net assets increase and the VPF system matures, the amount of withdrawals will also rise in absolute terms. In addition, the total withdrawals in 2020 amounted to RSD 2.2 bn, while in 2019 they measured RSD 1.7 bn. A c. 29% increase in withdrawals relative to end-2019 reflected the changes in the business environment amid the spread of the coronavirus pandemic, but it can be concluded that there were no significant negative effects on the VPF sector liquidity and stability.

In 2020, total withdrawals amounted to RSD 2.2 bn.

Transfers represent inter-fund transfers. A member may transfer a part or all of his assets from one fund to another, covering only the actual transfer costs.

In 2020, transfers equalled RSD 252.6 mn.

In Q4 2020, the amount of assets transferred to another fund equalled RSD 57.6 mn, while in annual terms, it reached RSD 252.6 mn in 2020, up by 20% from 2019, when transfers measured RSD 210.3 mn.

Total inter-fund transfers

(in RSD mn)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020			
										Q1	Q2	Q3	Q4
216.1	165.9	72.3	137.2	126.3	219.7	267.5	263.0	229.7	210.3	80.8	82.8	314	57.6

Source: National Bank of Serbia.

10 Fifteen years of VPF operation

Demographic trends, primarily the aging of the population, as well as changes in the economic environment, led to the need to reform the Serbian pension system. Hence, the possibility to save in private, voluntary pension funds was introduced as a supplement to mandatory pension insurance. These funds are based on individual capitalized savings.

The Law on Voluntary Pension Funds and Pension Schemes (hereinafter: the Law) came into force on 14 October 2005 and has been applied as of 1 April 2006. Insurance undertakings, licensed to perform VPF operations at that time, were required to harmonise their organisation and operations with the provisions of this Law. Thus, the three insurance undertakings, which until then provided voluntary pension insurance services, established VPF management companies and transferred the funds collected under voluntary pension insurance to VPFs set up by the newly established management companies.

The first VPF began to operate on 15 November 2006, and in 2007, six more, all of which initially managing one voluntary pension fund each. In 2008, two more management companies were founded, and the first company appeared that set up two VPFs, different by the degree of how conservative their investment approach was. The period from 2010 to 2013 was characterised by frequent changes in the number of management companies and their funds. In that period, companies and funds were merged in order to strengthen competitiveness in the market, increase their market share, better utilise company's resources, and create conditions for lowering the operating costs and thus lowering fees charged to fund members. At end-2013, the VPF market included four companies managing assets of six VPFs. In parallel with these developments, management companies established funds of various profiles in terms of how conservative their investment approach was or their preference for a particular currency, so that they could provide potential members, who had different goals and affinities, with a choice. After the first decade since the start of VPF operations, with the establishment of another fund intended for persons who primarily wanted their long-term savings to be predominantly denominated in euros, the number of market participants stabilised since the second half of 2015. Since then, the VPF market includes four management companies managing assets of seven VPFs.

In the previous fifteen years, four custody banks performed custody services on behalf of the VPFs, while today assets of all funds are entrusted to a single custody bank. In addition to the VPF employees, the services of the conclusion of VPF membership contracts were also provided by five intermediary banks and one insurance brokerage undertaking. In addition, based on completed professional examination and the fulfilment of other requirements, the NBS licensed 925 sales agents to disseminate information about VPF operation.

Although the number of management companies and funds initially changed, the Serbian VPF market, from its inception until today, recorded positive trends according to various indicators. Net assets of the VPF sector continued to rise, reaching RSD 47 bn at end-2020. Moreover, since the start of VPF operation until today, total annual

contributions recorded stable growth. Employer contributions accounted for the largest share in total contributions, but there is also a noticeable upward trend in individual contributions. In addition, withdrawals also recorded growth since the start of VPF operation. An increase in withdrawals reflected primarily VPF system development and operation, especially scheduled withdrawals, which on average increased about twice in annual terms.

Also, on the first business day of the first VPF, the initial FONDex value (the index which indicates movements in investment units of all VPFs in the market) was RSD 1,000, while the value of this index at the end-2020 reached RSD 3,095. The movement of FONDex continued to record a positive trend over the past fifteen years. This index reached the highest annual growth in the mentioned period in 2015 – 16.6%. The return is influenced by the change in the yield curve on government debt instruments, change in the prices of shares, change in investment unit values of open-end funds, level of the key policy rate and banks' interest rates, and changes of the dinar exchange rate against the euro and the dollar. It should be noted that the amount of return is not guaranteed and, regardless of the risk assumed by fund's investment, it does not provide complete information on the success of the fund's operations.

The structure of VPF assets remained relatively unchanged since the start of their operation in terms of the predominant orientation to investing in government securities, which kept the dominant position in the fund assets. This is also expected in the period ahead, given that the strategic asset allocations define the investment focus on this class of assets, and provide stable returns. In order to diversify the portfolio, until 2016 one fund had real estate in its portfolio. In 2010 the assets of one fund were invested in foreign government bonds (0.3%), and in the past three years there were investments in corporate bonds amounting to around 3.2% of the assets. Starting from 2012, funds also invest their assets in units of open-end investment funds, and during 2018, for the first time since the start of VPF operation, less than 1% of assets was invested in shares of foreign legal entities. Rebalancing by individual asset classes was performed in accordance with the movements of both local and global economic indicators.

The financial crisis in 2008, which affected the whole world, did not bypass our country either. The prices of shares in the stock market fell daily, the dinar weakened, and the economy, after several years of growth, entered into recession. The VPFs also felt some negative consequences, leading to a decline in FONDex return in the same year. However, investments adjusted to the market situation, as well as the regulatory framework, led to such an asset structure that minimised risk exposure, resulting in the FONDex value that never fell below its initial value. In addition, it should be noted that the business environment in 2020 was significantly different compared to previous years, due to the global coronavirus pandemic. The effect that the pandemic had on the financial market trends was noticeable, especially in terms of a significant drop in stock indices, which also reflected on the business results of the pension funds. However, the VPF system remained stable, and despite the changed business circumstances and reduced investment returns in the first half of the year, pension funds managed to record total investment return of around RSD 0.5 bn at year end. All the above indicates the constant growth and development of this activity with great potential for further progress.

The idea of separating the VPF assets which are owned by the fund members, and the assets of the management company itself, is further emphasised by specifying the type and limiting the amount of fees that companies can charge to members. At the beginning of VPF operations in the Serbian market, the contribution fee charged to members was set at maximum 3% of the contribution, while the management fee could not exceed 2% of the calculated net asset value. At that time, given that management companies were in charge of a small amount of VPF assets, the contribution fee was dominant in comparison to the management fee. With the increase in the number of market participants, the contribution fee decreased, while the management fee did not change and it was charged in the maximum prescribed amount. As a result of the rise in the net asset value and an ever-larger base against which management fees are charged, the ratio of these two fees changed, with the share of the management fee reaching as much as 90% of the total fees charged. Since early 2018, with amendments to the regulations, the management fee was set at maximum 1.25% of the calculated net asset value, while the cap on the contribution fee was removed. These changes additionally stimulated market competition, the share of management fees was kept at around 90% of the total fees charged, while the average contribution fee, which is no longer capped by regulations, is now charged at around 2%.

Tax incentives in the Republic of Serbia have a significant effect on encouraging the entire population to invest in VPFs, and represent a useful mechanism allowing employers to use it to attract and retain employees. The amount for which employers' payments are exempt from the household income tax and contributions for mandatory social insurance is established each year, while the payments made by natural persons through wage garnishment are also exempt from the household income tax. When pension funds began to operate, tax exemptions concerned the amount of RSD 3,000, while in 2021, this amount was set at RSD 6,062, or around 10% of the average wage.

The NBS continuously exercises its regulatory competences and supervises the VPF sector, with a view to maintaining stability of the system and protecting the interests of its members. Also, through its regular activities, it contributes to ensuring the market discipline of VPFs through transparent work, adequate risk management system and responsible operation of VPF management companies. Five years after the adoption of the Law, in May 2011, its amendments were adopted, as a result of the need to overcome certain problems identified in the previous practice in pension fund operations, as well as the need to align with regulations and the best practices in that field. The by-laws which regulate in more detail certain areas of companies and funds' business and improve certain supervisory procedures were also amended with a view to aligning with the amendments to the Law. The NBS continuously monitors the changes in accounting regulations and timely implements them in by-laws relating to the Chart of Accounts and contents of accounts in the Chart of Accounts, the content and layout of financial statement forms, as well as the form and content of the statistical report of management companies and VPFs. Also, the NBS actively participates in changing the regulations in the AML/CFT area and supervises the implementation of these regulations.

Finally, further development of institutional investors in the Republic of Serbia, such as VPFs, will depend primarily on the development of the domestic economy, higher living standards, and, thereby, household saving capacity. Not only will the funds benefit in terms of improving the business environment, but also their members, who will

provide additional income in old age. To be more specific, joint efforts of the state, economy and citizens, primarily in terms of raising awareness of the importance of VPFs will lead to significant development and progress of this segment of the financial system, which will bring potential both for the capital market and the national economy development.

The VPF sector is much more developed today compared to its early years, bearing in mind that the share of total fund assets in Serbia's GDP increased from the initial level of around 0.2% to 0.8%, according to the latest available data. The share of VPF users in the total population of the Republic of Serbia equalled only 3% at end-2020, while approximately every tenth employee is a VPF member, indicating there is room to increase coverage of this type of household saving for old age.

